



2018

ANNUAL REPORT

FISCAL YEAR ENDED
JUNE 30, 2018

CONTRIBUTION TO THE
GENERAL FUND ~ A
RECORD-BREAKING
\$345 MILLION!

SALES REVENUE FROM
LOTTERY GAMES OVER
\$1.2 BILLION!

PLAYERS WON MORE THAN
\$792 MILLION
IN PRIZE MONEY

RETAILERS EARNED
\$70 MILLION
IN COMMISSIONS



THANK YOU CONNECTICUT

for making 2018 our best fiscal year ever

2018 ANNUAL REPORT

Fiscal Year Ended June 30, 2018



CTLOTTERY.ORG

CONNECTICUT LOTTERY CORPORATION

(A Component Unit of the State of Connecticut)

TABLE OF CONTENTS

CONNECTICUT LOTTERY CORPORATION 2018 ANNUAL REPORT

1 MISSION STATEMENT

1 VISION STATEMENT

3 INTRODUCTORY SECTION

- 5 Letter of Transmittal
- 8 State of Connecticut List of Principal State Officers
- 8 Connecticut Lottery Corporation Board of Directors
- 9 Connecticut Lottery Corporation Organizational Chart
- 10 Scratch Games
- 10 Daily Games
- 11 Lucky Links with 2XPOWER
- 11 Cash5
- 12 Lotto!
- 12 Keno
- 13 Powerball®
- 13 Mega Millions®
- 14 Lucky for Life®
- 14 Connecticut Super Draw
- 16 Look Who's Winning!
- 20 Corporate Responsibility

23 FINANCIAL SECTION

- 25 Independent Auditors' Report
- 29 Management's Discussion and Analysis, June 30, 2018 and 2017

FINANCIAL STATEMENTS

- 36 Statements of Net Position
- 38 Statements of Revenues, Expenses, and Changes in Net Position
- 40 Statements of Cash Flows
- 42 Notes to Financial Statements, June 30, 2018 and 2017

63 REQUIRED SUPPLEMENTARY INFORMATION

- 64 Schedule of the Lottery's Proportionate Share of the Net Pension Liability
- 65 Schedule of the Lottery's Contributions to the State Employees Retirement System (SERS)
- 66 Schedule of the Lottery's Proportionate Share of the Net OPEB Liability
- 67 Schedule of the Lottery's Contributions to the State's Other Post Employment Benefit Program

CONNECTICUT LOTTERY CORPORATION
2018 ANNUAL REPORT

69 COMPLIANCE SECTION

- 70 Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

73 SUPPLEMENTAL SCHEDULES

- 74 Schedule of Profit Margins by Game Type, Year ended June 30, 2018
76 Schedule of Profit Margins by Game Type, Year ended June 30, 2017

79 STATISTICAL SECTION

- 81 Schedule of Revenues, Expenses and Changes in Net Position, Actual vs. Budget
Year ended June 30, 2018
82 Schedule of Revenues, Expenses and Changes in Net Position by Game Type
Year ended June 30, 2018
84 Chart: Revenue by Game
84 Chart: General Fund Payments by Game
85 Chart: Distribution of Expenses and Payments as a Percentage of Total Revenue
85 Chart: State Services Supported by Lottery Payments to the General Fund
86 Chart: Revenues for the Last Ten Fiscal Years
86 Chart: Payments to the General Fund for the Last Ten Fiscal Years
88 Schedule of Revenues by Game Type, Related Expenses and Payments to the
General Fund for the Last Ten Fiscal Years
90 Comparative Industry Statistics



MISSION STATEMENT

The mission of the Connecticut Lottery Corporation is to raise revenue in an entrepreneurial manner for the State of Connecticut, consistent with the highest standards of good public policy and social responsibility, by offering products to our players that are fun and entertaining and by ensuring the public's trust through integrity and honesty.

VISION STATEMENT

The Connecticut Lottery Corporation will be recognized as a leader in the lottery industry, committed to helping the State of Connecticut achieve its revenue raising objectives. Furthermore, it is the Connecticut Lottery Corporation's charge to address problem and underage gambling by taking proactive measures to implement and support responsible gaming initiatives.



INTRODUCTORY SECTION



March 18, 2019

The Honorable Edward M. Lamont, Governor of Connecticut
The Connecticut Lottery Corporation Board of Directors
The Citizens of Connecticut

We are pleased to transmit to you the Annual Report of the Connecticut Lottery Corporation (“CLC” or “Lottery”) for the fiscal year ended June 30, 2018.

The passage of Public Act 96-212 marked the first time a lottery operated by a state agency had been transferred to a quasi-public corporation to be operated as an enterprise fund. At full complement, a thirteen-member board of directors governs the CLC, eleven of whom are appointed by the Governor and legislative leadership. Two members serve in an ex-officio capacity for the State Treasurer and the Secretary of the Office of Policy and Management.

The CLC is a component unit of the State of Connecticut for financial reporting purposes. With more than forty-six years of continuous operation, the CLC is one of the oldest lotteries in the United States. From its inception to June 30, 2018, the Lottery has generated total sales of approximately \$29.6 billion and has contributed approximately \$9.5 billion to the state’s General Fund. The General Fund is used to fund a wide variety of state services that benefit Connecticut residents, including health and hospitals, education, and public safety.

Six categories comprise this report: introduction, financial, compliance, required supplemental information, supplemental schedules and statistics. The introductory section includes this transmittal letter, a list of officials, an organizational chart, current lottery games and significant events of the past fiscal year. The financial section begins with the report of independent auditors, followed by management’s discussion and analysis of fiscal 2018, the comparative financial statements of the CLC, the related notes to the financial statements, compliance section, required supplemental information and supplemental schedules. The statistical section, which is unaudited, provides additional information regarding Lottery revenue and expenses.

Management of the CLC is responsible for the accuracy, completeness and fairness of this presentation, including all disclosures. To the best of our knowledge and belief, the data in this report is accurate in all material respects and is designed to fairly present the corporation’s financial position, results of operations, and cash flows. We have included all disclosures necessary to enable the reader to gain an understanding of the CLC’s financial activities. Accounting principles generally accepted in the United States (“GAAP”) for governmental enterprise funds require that we provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (“MD&A”). The CLC’s MD&A can be found immediately following the report of the independent auditors in the financial section.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

In fiscal 2018, the CLC generated \$1.268 billion in sales revenue and delivered a record \$345.0 million to the General Fund. Sales revenue increased \$51.3 million, or 4.2%, from the prior fiscal year. All lottery games experienced higher sales volumes year over year except for Lucky Links. Sales revenue increased \$21.7 million (17.0%) for the multi-state games, \$14.2 million (19.7%) for KENO and \$10.1 million (1.0%) for the portfolio of instant tickets. Other lottery games had more modest revenue gains year over year.

Total cost of sales, including prizes and commissions, was \$898.5 million in fiscal 2018 compared to \$855.8 million in fiscal 2017. Cost of sales vary proportionally with the change in total sales, with prize expense the largest contributor. Operating expenses were \$25.7 million for fiscal 2018 compared to \$24.6 million in fiscal 2017. Payments to the state's General Fund totaled \$345.0 million in fiscal 2018, an increase of \$15.0 million from the prior fiscal year total of \$330.0 million. For a more complete overview of the financial highlights of fiscal 2018, including comparisons with the results of the prior fiscal year, please read Management's Discussion and Analysis included in the financial section of this report.

FINANCIAL OPERATIONS

ENTREPRENEURIAL CORPORATION: The CLC operates as a business. The sale of lottery tickets to the general public sustains the prize and retailer commission structure and all lottery-related support operations. After prizes and expenses, the net income is contributed to the Connecticut General Fund. The CLC utilizes the accrual basis of accounting, in accordance with generally accepted accounting principles, recognizing revenue when earned and expenses when incurred. No general government functions or fiduciary operations are managed by the CLC.

INTERNAL CONTROL & SECURITY ENVIRONMENT: Management of the CLC is responsible for establishing and maintaining an internal control structure designed to assure that assets are protected from loss, theft, or misuse, and to ensure that the accounting system allows for compilation of accurate and timely information. The structure is designed to provide reasonable assurance that these objectives are met.

To enhance controls over accounting procedures, the CLC has segregated the following functions: personnel and payroll, purchasing and accounts payable, and general ledger and accounts receivable accounting. Data input and processing are separate from system programming, and management provides approval and oversight.

The CLC ensures that its operations remain secure with a commitment to the following protocol:

- Regulated by the Department of Consumer Protection who performs background checks and issues licenses for retailers, CLC employees, and in-house contractors;
- Lottery tickets printed with special inks, dyes, and security codes;
- Detailed written procedures for all game drawings;
- Limited access to its data and information systems;
- Limited access to facilities.

DEBT ADMINISTRATION: The CLC's long-term liabilities are essentially limited to payments owed to prize winners in the form of weekly, monthly and annual payments. The payments are fully funded by annuities purchased from life insurance companies with at least \$50 million in policyholder surplus. These insurance companies must be licensed to do business in Connecticut and must also have credit ratings at the date of award equal to or better than the following levels from at least one of the three credit rating services listed below:

<u>Credit Rating Service</u>	<u>Minimum Acceptable</u>
Moody's Service Credit Opinion	Aa
Standard and Poor's Insurance Rating Service Digest	AA
A. M. Best	A-

The CLC collects net earnings from sales of lottery games from approximately 2,900 retailers on a weekly basis. Funds are electronically swept from the retailers' designated bank accounts, and weekly transfers of estimated net income (sales revenue less prizes, commissions and other operating expenses) are made to the Connecticut General Fund.

The CLC invests its excess cash with the Treasurer of the State of Connecticut. The Treasurer manages an investment pool of high-quality, short-term money market instruments for state and local governments.

RISK MANAGEMENT: The CLC is exposed to various risks of loss related to thefts, damage or destruction of assets, injuries and natural disasters, for which it carries appropriate insurance through individual policies.

INDEPENDENT AUDIT: Connecticut statutes require an annual financial audit of the CLC by independent auditors. The audits of the CLC's financial statements for fiscal years 2018 and 2017 have been completed in conformity with generally accepted auditing standards. The unmodified opinion of the independent auditors on the CLC financial statements is included in the financial section of this report.

The Auditors of Public Accounts for the State of Connecticut also audit the CLC biannually.

We look forward to the coming year and to continuing to find ways to be as innovative and efficient as possible to maximize transfers to the General Fund.

Respectfully Submitted,



Gregory H. Smith

President & CEO



STATE OF CONNECTICUT

LIST OF PRINCIPAL STATE OFFICERS, AS OF JUNE 30, 2018

DANNEL P. MALLOY, Governor
NANCY WYMAN, Lieutenant Governor

Denise W. Merrill	Secretary of the State
Denise L. Nappier	State Treasurer
Kevin Lembo	State Comptroller
George Jepson	Attorney General



CONNECTICUT LOTTERY CORPORATION

BOARD OF DIRECTORS, AS OF JUNE 30, 2018

Benjamin Barnes	Secretary, Office of Policy and Management
Robert S. Dakers	Designee of Secretary, Office of Policy and Management
Denise L. Nappier	State Treasurer
Robert C. Morgan	Designee of State Treasurer
Patrick M. Birney	Vice Chairperson
Meghan Culmo	
James J. Heckman	
Michael J. Janusko	
Margaret L. Morton	
Natasha M. Pierre	
Michael P. Thompson	
Diane Winston	



CONNECTICUT LOTTERY CORPORATION

ORGANIZATIONAL CHART, AS OF JUNE 30, 2018

ADMINISTRATION

Chelsea E. Turner	Interim President & Chief Executive Officer
Michael J. Hunter	Chief Operations Officer
Paul A. Granato	Chief Financial Officer
Matthew Stone	General Counsel
Jane M. Rooney	Director of Human Resources
Alfred W. DuPuis, Jr.	Director of Security
Theresa Scott	Interim Director of Sales
Kendra Eckhart	Interim Director of Marketing

MANAGEMENT BY DEPARTMENT

MARKETING & SALES

Linda Tarnowski	Director of Communications & Public Relations
Carlos Rodriguez	Director of Lottery Games
Thomas J. Trella	Director of Portfolio, Strategy & Analysis

INFORMATION TECHNOLOGY & RETAILER RELATIONS

Steven Wagner	Director of Information Technology
Steven J. Fox	Manager of Vendor Compliance
John J. Gasparini	IS Manager of Application & Internet Development
Solomon Ramsey	Director of Recruitment & Retailer Relations

FINANCE & COLLECTIONS

Barry L. Sheftel	Lottery Financial Manager
Barbara Petano	Lottery Financial Manager

LEGAL

Andrew E. Walter	Counsel
Jeff Yue	Counsel

HUMAN RESOURCES & TRANSPORTATION

Jennifer Hunter	Assistant Director of Human Resources
Tammy Marquis	Human Resources Specialist

SECURITY

Deborah Davis	Assistant Director of Security
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ADMINISTRATION & OPERATIONS

Suzanne Colley	Director of Operations
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SCRATCH GAMES

FISCAL YEAR 2018 STATISTICS:



\$145,112,644 in General Fund payments

57.6% of total net sales

42.1% of General Fund payments

Scratch games are easy to play and provide players with instant entertainment. By removing the scratch-off coating on the ticket face, players can discover in an instant if they've won and the amount of their prize. Ticket prices range from \$1 to \$30, with set prizes from a FREE \$1 scratch ticket up to \$5,000,000!

From the crossword action of "Cashword" to the excitement of revealing an "X" game prize multiplier, like those found in the "10X Cash," "20X Cash," and "30X Cash" scratch games – there's a variety of play styles for everyone. Depending upon the game, players may need to match numbers, symbols or dollar amounts, spell words, beat the dealer's card, or reveal a Bonus Prize. With such a variety of games, it's easy to see why scratch games are the play of choice for a lot of consumers!

Many scratch games were released this year, all with unique designs that attract different types of players. For the sports enthusiast, we highlighted the "Giants" and "Patriots" football teams, each featuring team logos and four Second Chance Drawings for a chance to win game tickets, on-field experiences and more. From the special "water droplets" paper that brought the Lucky 7s series to life to the clean and elegant design of the "\$5,000,000 ULTIMATE" ticket, everyone can find a game that's fun to play and pleasing to the eye.

DAILY GAMES

FISCAL YEAR 2018 STATISTICS:

\$101,614,593 in General Fund payments



Play3 Day:

4.1% of total net sales

5.9% of General Fund payments



Play3 Night:

5.5% of total net sales

8.7% of General Fund payments



Play4 Day:

3.9% of total net sales

7.1% of General Fund payments



Play4 Night:

5.7% of total net sales

7.8% of General Fund payments

Four times each day, players have an opportunity to win with the Lottery's "Daily Games." Four games in all – "Play3 Day," "Play4 Day," "Play3 Night" and "Play4 Night" – help us to make sure that we've got your numbers!

To play, players select three or four numbers from 0 to 9, choose a wager style, and pick a wager between \$.50 and \$5 per play. Prizes are based on the wager style and wager amount, and range from a modest \$25 up to an exciting \$25,000 per play.

LUCKY LINKS WITH 2XPOWER™

FISCAL YEAR 2018 STATISTICS:



\$1,410,346 in General Fund payments

0.5% of total net sales

0.4% of General Fund payments

On April 26, 2015, the CT Lottery introduced "Lucky Links with 2XPOWER" offering a whole new way to play and a top prize of \$50,000. Each play costs \$2. By adding the 2XPOWER feature to their ticket for an additional \$1 per play, winners can double some of the game's prizes. Drawings are held twice daily, both day and night.

Lucky Links with 2XPOWER is a "Quick Pick" only game, so no play slip is needed. Similar to tic-tac-toe, each ticket contains a unique "play grid" with eight different numbers from 1 to 22, and a free space "\$" sign in the middle to form straight horizontal, straight vertical or straight diagonal lines. The \$50,000 top prize is won when eight lines are made. There are also five other ways to win prizes in the game.

CASH5

FISCAL YEAR 2018 STATISTICS:



\$10,000,603 in General Fund payments

2.5% of total net sales

2.9% of General Fund payments

"Cash5" is Connecticut's nightly draw game with a \$100,000 top prize. For \$1 per play, players choose five different numbers from 1 to 35, or select "Quick Pick." By adding the "Kicker" feature for just \$.50, players increase their chance to win more often, and win more prize levels. The top prize is won by matching all five numbers drawn. There are also six other ways to win prizes in the game. With more than 1,000,000 winning tickets sold in this game each year, Cash5 is a proven favorite with Connecticut's players.

FISCAL YEAR 2018 STATISTICS:



\$5,743,201 in General Fund payments

1.5% of total net sales

1.6% of General Fund payments

Since November 7, 1983, the “Lotto” game has been a part of Connecticut’s play of choice. Although Lotto has gone through several enhancements over the years, it is still the game that’s most associated with the CT Lottery. Drawings are held Tuesday and Friday nights.

For \$1 per play, players choose six different numbers from 1 to 44, or select "Quick Pick." Jackpots start at \$1,000,000 and grow until won. The jackpot is won by matching all six numbers drawn. Besides the jackpot, there are three other prize levels. Jackpot winners may opt to receive their prize money in 21 equal annual installments or in a cash lump sum.

FISCAL YEAR 2018 STATISTICS:



\$19,996,340 in General Fund payments

6.8% of total net sales

5.8% of General Fund payments

"KENO" launched on April 25, 2016, offering players "On the Spot Fun®" seven days a week, with lots of ways to play and win. Players have a chance to win up to \$1,000,000 every four minutes when some, none or all of their numbers (spots) are matched by the computer. To play, players fill out a play slip by choosing how many spots they would like and then pick numbers from 1 to 80, or select "Quick Pick." Players choose how much to wager and how many consecutive games to play.

Adding the BONUS MULTIPLIER doubles the total ticket cost, but gives winners a chance to multiply the prize won by 2, 3, 4, 5, or 10 times the BONUS MULTIPLIER number selected for the game.

POWERBALL®

FISCAL YEAR 2018 STATISTICS:



\$37,941,817 in General Fund payments

7.0% of total net sales

11.0% of General Fund payments

The CT Lottery joined the multi-state "Powerball" game on November 28, 1995. Drawings are held Wednesday and Saturday nights. Each play costs \$2. When players activate the Power Play® feature on their ticket for an additional \$1 per play, winners can multiply any non-jackpot prize by 2, 3, 4 or 5 times the prize amount won. A 10-times multiplier is in effect in drawings with a jackpot of under \$150 million.

Since October 7, 2015, the Powerball game has used a double matrix: players pick five different "white" ball numbers from 1 to 69, and one "red" Powerball number from 1 to 26, or select "Quick Pick."

Jackpots start at \$40 million and grow by a minimum of \$10 million per drawing until won. The jackpot is won by matching all six numbers drawn. Besides the jackpot, there are eight other prize levels. Jackpot winners may opt to receive their prize money in 30 annual (graduated) payments or in a cash lump sum. Players who correctly match five white ball numbers with Power Play automatically win \$2,000,000.

MEGA MILLIONS®

FISCAL YEAR 2018 STATISTICS:



\$17,136,682 in General Fund payments

3.3% of total net sales

5.0% of General Fund payments

The CT Lottery joined the multi-state "Mega Millions" game on January 31, 2010. Drawings are held Monday and Thursday nights. Each play costs \$2. When players activate the Megaplier® feature on their ticket for an additional \$1 per play, winners can receive 2, 3, 4 or 5 times the prize amount won, from the first through the eighth prize levels of the game.

Since October 28, 2017, the Mega Millions game has used a double matrix; players pick five different "white" ball numbers from 1 to 70, and one "yellow" Mega Ball number from 1 to 25, or select "Quick Pick."

Jackpots start at \$40 million and grow by a minimum of \$5 million per drawing until won. The jackpot is won by matching all six numbers drawn. Besides the jackpot, there are eight other prize levels. Jackpot winners may opt to receive their prize money in 30 annual (graduated) payments or in a cash lump sum.

FISCAL YEAR 2018 STATISTICS:



\$5,816,582 in General Fund payments

1.5% of total net sales

1.7% of General Fund payments

On March 11, 2012, New England's "Lucky for Life" regional draw game began with tickets sold in Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont and Maine.

On January 27, 2015, Lucky for Life expanded to 14 states across the country, featuring larger prize amounts and improved odds. The game has since grown to include 25 states and the District of Columbia. For the same \$2 ticket price, players pick five different "white" ball numbers from 1 to 48, and one "yellow" Lucky Ball number from 1 to 18. The "\$1,000 a day for life" top prize is won by matching all six numbers drawn, and the "\$25,000 a year for life" second prize is won by matching all five "white" ball numbers. There are also eight other ways to win prizes in the game.

CONNECTICUT SUPER DRAW

FISCAL YEAR 2018 STATISTICS:



\$0 in General Fund payments

0.2% of total net sales

0.0% of General Fund payments

Ticket sales for Connecticut's "Super Draw" game began on October 1, 2010. Unlike daily or weekly draw games, Super Draw is only offered periodically. Sales are limited to a specific period of time, generally three months or less, and may or may not offer a finite number of tickets for sale. Since the game's introduction, 14 Super Draw games have been held in Connecticut.

On October 15, 2017, ticket sales for the "New Year's \$1,000,000 Super Draw" began. Ticket sales were limited to 275,000 tickets and sold for \$10 each. The game, which featured 1,311 guaranteed cash prizes, included one \$1,000,000 top prize. To help facilitate early sales, nine "Early Bird" drawings were held, each consisting of a drawing pool of the Super Draw tickets sold during a specified time period. Each Early Bird drawing awarded 10 prizes of \$1,000 each, for a total of 90 prizes.

On January 1, 2018, the New Year's \$1,000,000 Super Draw was held. Due to an error in the range of tickets eligible for that date, a second drawing that included the corrected ticket number range was held on January 16, 2018. All winning tickets from both drawings were honored.

Mother of Six Wins \$1,000,000 Powerball® Prize with Children’s Birthday Numbers

August 24, 2017 – On the night of the second largest jackpot drawing in Powerball history, Johanna Moreno of Torrington took a chance and purchased a ticket. “I really don’t play that often and I only had a couple of dollars on me.”

The Powerball winning numbers drawn on August 23 were 6 - 7 - 16 - 23 - 26 and Powerball 4. Moreno’s ticket matched the first 5 numbers drawn, which were a combination of her children’s birthdays.

After seeing the winning numbers posted on Facebook, Moreno ran to her car to get her Powerball ticket. “I was just in shock,” Moreno said. “I knew the numbers [matched] right away. I couldn’t believe it!”

After receiving her check from Lottery officials, Moreno looked up and said with a smile, “I’m very thankful—it’s a blessing. It’s been difficult lately, but now I plan to get a car, a house for the kids, and go to school.”

Retailer: North Elm Mobil, 100 North Elm Street, Torrington



CT Lottery’s Largest KENO® Prize Winner Plays Same Numbers and Wins Again!

September 12, 2017 – The CT Lottery saw a familiar face when Mark Roy of Groton returned to claim another huge KENO prize. Last year, Roy won a \$200,000 KENO prize, matching 7 of 7 numbers with a 4X Bonus Multiplier. This year, Roy played the exact same numbers, at the same retailer and won \$100,000!

“The numbers all mean something to me...they’re all family birthday numbers. I’m just ecstatic,” exclaimed the repeat winner. “I had a feeling—Thursday I got up and said, ‘Something good is going to happen today!’”

Roy won \$50,000 for matching 7 out of 7 numbers on his \$20 ticket in game #159711. With a 2X Bonus Multiplier, Roy’s prize was automatically multiplied to \$100,000.

“I feel so happy!” Roy said. “There’s money in the bank, I have a great job—I feel blessed. Blessed with family and friends!” Smiling ear to ear after receiving his check, Roy told Lottery officials he plans to book a vacation with the KENO prize.

Retailer: Gatehouse Tavern, 24 Eastern Point Road, Groton



No Tricks, Just Treats! Amston Woman Claims \$100,000 Prize

October 31, 2017 – Victoria MacDonald of Amston got something a little better than candy this Halloween. She claimed a \$100,000 “Lucky Times 10” top prize!

“I freaked out! I had some nightmares about losing [the ticket],” MacDonald said with a giggle.

MacDonald was standing in line with her husband when she scratched her ticket. “It was a busy day. I saw a 100, and said ‘Wait, that’s not in the right place!’ I finished scratching and said, ‘No way!’” Not believing her eyes, MacDonald used the CT Lottery Mobile App to scan her ticket. She also had the clerk scan her ticket just in case. “The clerk’s eyes got big and she said, ‘You won a lot of money!’”

“This came at the right time,” MacDonald sighed while looking at her winner’s check. “I’m now debt free and can start planning retirement.”

Retailer: Stop & Shop #674, 1391 Main Street, Willimantic



Couple Celebrating Anniversary Strikes 'Gold' with \$500,000 Win

February 14, 2018 – Two weeks earlier, Frank and Margaret Vaccarelli of Waterbury celebrated their 45th wedding anniversary, and now they have even more reason to celebrate—a \$500,000 “Gold Premium Play” prize win!

“It’s amazing, I can’t believe it! I always said, ‘Maybe one day we’ll hit it,’” said Vaccarelli.

Vaccarelli, a Head Custodian for the past eleven years at a local elementary school, said he loves every moment of his job, but he’s really looking forward to having more free time to spend with his wife.

“Now, I can retire in July,” said the lucky winner who chose to claim the \$360,000 lump sum prize, instead of the \$500,000 annuity option.

“I’m just so happy for my family,” Vaccarelli said, while leaning in to his wife for a hug and kiss. “We’ll go on a couple vacations, maybe Disney, and pay some bills.”

Retailer: City Gas & Grocery, 1439 Baldwin Street, Waterbury



Dessert Stop Leads to Sweet '\$2,000 a Month For Life' Payout

March 12, 2018 – Every Tuesday night, Lisa Nagy and her husband enjoy going out to dinner together. "It's a tradition," said the happy Easton couple. After dinner, Nagy said her husband wanted to stop for ice cream for dessert. On the spur of the moment, Nagy asked him to also buy a "Win Up to \$2,000 a Month for Life" scratch ticket.

Bringing the ticket home to play, Nagy said she was "pleasantly surprised" to reveal the game's top prize "WIN FOR LIFE" symbol.

"I sent a picture [of the ticket] to my friend and went back to the retailer to use the Ticket Checker," Nagy told Lottery officials.

Taking time to think about the game's prize options, Nagy ultimately decided to claim the top prize at its cash lump sum value, \$400,000.

"I feel very, very blessed!" said Nagy who plans on using the prize to pay "normal stuff—bills" first. "If I can do something good with [the prize], I hope to."

Retailer: Stratfield Service Center, 1271 Stratfield Road, Fairfield



Stratford Man Reels in \$5,000,000 Mega Millions® Prize

March 16, 2018 – Robert Nickle of Stratford couldn't help but smile as he and his family claimed his \$5,000,000 Mega Millions prize at Lottery Headquarters. "I'm still a bundle of nerves," said Nickle with a laugh.

Nickle had purchased his winning ticket from his favorite deli while on his way home from work. It wasn't until the following morning that Nickle checked his numbers in his truck.

The Mega Millions winning numbers drawn on March 13 were 6 - 30 - 58 - 60 - 61, Mega Ball 17, and Megaplier® 5. Nickle's ticket contained a five number match, and with the added Megaplier, his \$1,000,000 prize was multiplied by 5—Connecticut's first-ever \$5,000,000 Mega Millions prize win!

Nickle plans to purchase a house for his family and looks to enjoy the outdoors with more free time. "After today, no more work—I'm going fishing! Normally I go fishing near the Long Island Sound, but I might travel out some more now—maybe to Maine!"

Retailer: Dolly's Deli LLC, 6 Boston Avenue, Stratford



Retired Postal Worker Discovers Eight Extra Letters Worth \$25,000

May 21, 2018 – When retired postal worker Edward Michaud of Stratford scanned his CT Lottery “Cashword 25” scratch ticket in a retailer’s ticket checker last week, he definitely received more than he expected. Anticipating a \$1,000 prize for a 9 word match, the message on the ticket checker flashed a \$25,000 top prize win instead.

“I don’t know how I missed that last word,” said Michaud with a chuckle. “I thought I won only \$1,000, but when I went back inside to check my ticket, I was pleasantly surprised. It [the ticket checker] said \$25,000. I did a double-take, and then had the retailer check it for me.”

Michaud happily shared the good news with his two daughters, his wife, and his mother-in-law, making plans with each to divvy up the prize. “I’ll give some of the money to my two grand kids, too,” Michaud told Lottery officials. “My wife and I will spend a little on ourselves, and the rest of the money will go into the bank.”

Retailer: New Turbo News Plus, 1140 Main Street, Stratford



The CLC's commitment to corporate responsibility is firmly rooted in five primary areas: Responsible Gambling (RG); Pro Business Initiatives and Supplier Diversity; Inclusion; Green Initiatives; and Employee Engagement. Employees throughout the organization support these efforts. The CLC's quarterly corporate responsibility newsletter, *Chatter That Matters*[™], reports on its wide variety of efforts. Highlights from fiscal 2018 are listed below:

Responsible Gambling (RG)

- **Helpline:** The CLC widely promotes the problem gambling helpline, text and chat through its advertising efforts, which include: television and radio, billboards, retail materials and the back of our all of our instant and draw tickets.
- **GameSense:** The CLC became the first U.S. lottery to become a licensee of the British Columbia Lottery Corporation's (BCLC's) GameSense brand. A comprehensive campaign was rolled out in 2016 in conjunction with the introduction of KENO in Connecticut's marketplace. GameSense is an innovative and fresh approach to RG, supported by the RG community. The brand encourages players to use their GameSense, or, common sense, when gambling, with messages such as "don't chase your losses," "know when to take a break," and, "set a limit." In FY'18, GameSense was rebranded and now uses simple, easy to understand iconography to help deliver harm reduction messages to players. The CLC routinely weaves GameSense into its marketing efforts.
- **Holiday Responsible Gambling Campaign:** For the tenth year in a row, the CLC participated in the National Council on Problem Gambling (NCPG) and McGill University's International Centre for Youth Gambling Problems and High-Risk Behaviors' annual holiday campaign to educate the public that lottery tickets are not suitable holiday gifts for children. For the fifth year in a row, the CLC partnered with Connecticut Children's Medical Center to collect toys for children who receive hospital care and to promote the message "Do a 'Lotto' Good, Give a Toy! Give a Child a Toy, Not a Ticket." The CLC collected hundreds of toys for Connecticut Children's Medical Center and raised awareness about RG at the same time.
- **Problem Gambling Awareness Month (PGAM):** March is PGAM. This past year's efforts included: a comprehensive calendar of events about responsible gambling for the entire month of March. This included a Board resolution, messaging on billboards and at retail locations, GameSense Public Service Announcements and marketing materials, social media messaging, an educational display created by employees, state employee pay inserts, employee and retailer training and a fundraiser to support the CT Council on Problem Gambling (CCPG).
- **CT Partnership for Responsible Gambling:** "The Partnership" is an eighteen-year coalition between the CLC, the Department of Mental Health and Addiction Services' Problem Gambling Division, and the CT Council on Problem Gambling (CCPG). The CLC actively participates in quarterly meetings where information is exchanged and initiatives are proposed.
- **Gambling Awareness for All CT ("GFACT"):** This group meets quarterly and provides an opportunity for responsible gambling advocates, mental health clinicians, and casino and lottery industry representatives to exchange information and learn more about how problem gambling affects vulnerable populations such as the elderly, minorities, women and youth.

- **National Association of State and Provincial Lotteries (NASPL) Responsible Gambling Committee:** CLC is a member of the NASPL Responsible Gambling Committee which focuses on encouraging lotteries to go through the NCPG-NASPL responsible gambling accreditation process, participate in the NCPG-McGill responsible gambling holiday campaign, and helps to identify and secure speakers for NASPL's annual professional development and main conferences.
- **NCPG and CCPG:** The CLC annually sponsors and participates in both the NCPG and CCPG conferences. Additionally, the CLC was part of the planning committee for the past three NCPG Annual Conferences. CLC senior staff members also serve on the Board of Directors for NCPG.

Pro Business Initiatives and Supplier Diversity

- **Greater New England Minority Supplier Development Council (GNEMSDC) Membership:** The CLC is an active member of GNEMSDC and we participate in quarterly meetings, attend the annual gala, and exhibit at their annual tradeshow. At the gala in April, the CLC received the prestigious "Corporation of the Year" award, out of all Corporate GNEMSDC members. In other exciting news, we hosted a match-maker event that was well attended and well received. The Hartford, the Walt Disney Company, the University of Connecticut and Stanley Black & Decker all participated, and many local and minority suppliers attended.
- **United States Small Business Administration (SBA) Matchmaker Conference:** CLC employees participated in the SBA's Matchmaker at the University of Hartford.
- **Women's Business Enterprise National Council (WBENC) Membership:** The CLC regularly attends and participates in meetings and events.

Inclusion

- **Affirmative Action:** The CLC is an Affirmative Action / Equal Opportunity Employer focused on increasingly inclusive recruitment and communications.
- **"Life Reimagined for Work":** The CLC is a participant in the American Association of Retired Persons' (AARP) "Life Reimagined for Work" campaign, which affirms the CLC's commitment to hiring and promoting workers regardless of age.

Green Initiatives

- **Recycling:** The CLC continues to use 100% recyclable paper envelopes for all instant ticket shipping. The vast majority of CLC's instant tickets are printed on 100% recyclable paper. In addition, the CLC recycles instant ticket dispensers by refurbishing them and reusing them when possible. This initiative has saved hundreds of thousands of dollars over time. The CLC utilizes a specialized electronic recycling vendor to dispose of computers, monitors, printers, signs and other electronic equipment. The CLC also recycles pallet crates, paper, aluminum cans and batteries.
- **Clean Air:** The CLC participates in Dell's "Plant a Tree" Program. For each computer purchased through this program, money is donated towards planting trees to offset the carbon footprint left behind by electronic devices.

Employee Engagement

- **Supporting Good Causes of Connecticut:** The CLC added a fifth pillar called Employee Engagement/Community Involvement to its corporate social responsibility platform. This voluntary program is designed to encourage employees to be involved in areas that interest them outside of work. Examples include: volunteering on a board, becoming a “Big Brother” or “Big Sister,” and coaching or leading children’s extracurricular activities. The CLC believes that its employees have many skills and talents that can be shared and help benefit local communities.



FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Connecticut Lottery Corporation
Rocky Hill, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of The Connecticut Lottery Corporation (the Lottery), a component unit of the State of Connecticut, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise of the Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lottery as of June 30, 2018, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 8 to the financial statements, during the fiscal year ended June 30, 2018, The Connecticut Lottery Corporation adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The net position of The Connecticut Lottery Corporation has been restated to recognize the net other postemployment benefit liability in accordance with GASB No. 75. Our opinion is not modified with respect to this matter.

Prior Year Financial Statements and Change in Accounting Principle

The financial statements of The Connecticut Lottery Corporation as of June 30, 2017 were audited by other auditors whose opinion dated October 5, 2017 expressed an unmodified opinion on those statements. As discussed above, management has adjusted its 2017 financial statements to retrospectively apply GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The other auditors reported on the financial statements before the retrospective adjustment.

As part of our audit of the 2018 financial statements, we also audited the adjustments to the 2017 financial statements to retrospectively apply the change in accounting as described in Note 12. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2017 financial statements of The Connecticut Lottery Corporation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 29 through 35 and the pension and OPEB schedules on pages 64 through 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lottery's basic financial statements. The schedule of profit margins by game type is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The schedule of profit margins by game type for the year ended June 30, 2018 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of profit margins by game type for the year ended June 30, 2018 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of profit margins by game type for the year ended June 30, 2017, which is the responsibility of management, was included in the prior period financial statements audited by other auditors who stated such information was fairly stated, in all material respects, in relation to the 2017 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2018 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
November 9, 2018

CONNECTICUT LOTTERY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2018 AND 2017

The following Management's Discussion and Analysis (MD&A) provides an overview of the Connecticut Lottery Corporation's (the Lottery) financial performance for the fiscal years ended June 30, 2018 and 2017. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements and notes to financial statements.

FINANCIAL STATEMENTS PRESENTED IN THIS REPORT

The Lottery is a quasi-public corporation of the State of Connecticut (the State) created to generate revenues for the State's General Fund through the operation of a lottery. The Lottery activities are accounted for as an enterprise fund using the accrual basis of accounting, similar to a private business entity.

The financial statements are comprised of three components:

- **Statements of Net Position (Deficit)** reflect the Lottery's financial position as of June 30, 2018 and 2017.
- **Statements of Revenues, Expenses, and Changes in Net Position (Deficit)** report the revenues and expenses for the periods June 30, 2018 and 2017.
- **Statements of Cash Flows** reconcile the changes in cash and cash equivalents with the activities of the Lottery for the periods presented. The activities are classified as to operating, investing, capital financing and noncapital financing.

Notes to the financial statements provide additional detailed information to supplement the basis for reporting and nature of key assets and liabilities.

FINANCIAL HIGHLIGHTS OF FISCAL 2018

- Sales revenue totaled \$1.268 billion, up \$51.3 million or 4.2% compared to the prior year. Cost of sales (including prizes and commissions) totaled \$898.5 million up \$42.8 million or 5.0% compared to the prior fiscal year. Operating expenses were \$25.7 million, up \$1.1 million or 4.4% compared to the same period a year earlier. Transfers to the State's General Fund amounted to \$345.0 million, up \$15.0 million or 4.6% from the same period a year earlier.

FINANCIAL HIGHLIGHTS OF FISCAL 2017

- Sales revenue totaled \$1.216 billion, down \$14.5 million or 1.2% compared to the prior year. Costs of sales (including prizes and commissions) totaled \$855.8 million, down \$4.1 million or 0.5% compared to the prior fiscal year. Operating expenses were \$24.6 million, up \$5.2 million or 26.8% compared to the same period a year earlier. Transfers to the State's General Fund amounted to \$330.0 million, down \$7.5 million or 2.2% from the same period a year earlier.

CONNECTICUT LOTTERY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2018 AND 2017

CONDENSED FINANCIAL INFORMATION

Net Position (Deficit) and Changes in Net Position (Deficit)

Net position (deficit) represents the assets of the Lottery plus the deferred outflows of resources less the liabilities owed to third parties and the deferred inflows of resources. The net position (deficit) is restricted for promotional purposes, augmenting prizes or increasing payments to the State's General Fund.

Listed below is a summary of the key components of net position (deficit). The net position is negative due to the recognition of the Lottery's share of the net pension liability and other post employment benefits liability included in long term liabilities. The change in net position does not reflect the results of the Lottery's operating activities.

	2018	Increase (Decrease)	2017	Increase (Decrease)	2016
	<i>(in thousands)</i>				
Current assets	\$ 62,596	\$ 4,242	\$ 58,354	\$ (1,921)	\$ 60,275
Investments and other non-current assets	127,156	1,426	125,730	-	127,097
Capital assets (net of accumulated depreciation)	819	(46)	865	(6)	871
Total Assets	\$ 190,571	\$ 5,623	\$ 184,949	\$ (3,294)	\$ 188,243
Deferred outflow of resources	\$ 18,516	\$ (2,766)	\$ 21,282	\$ 16,721	\$ 4,561
Current liabilities	\$ 56,644	\$ 8,689	\$ 47,955	\$ (2,630)	\$ 50,585
Long-term liabilities	227,711	38	227,672	64,380	163,292
Total Liabilities	\$ 284,355	\$ 8,728	\$ 275,627	\$ 61,750	\$ 213,877
Deferred inflow of resources	\$ 4,412	\$ 421	\$ 3,991	\$ (582)	\$ 4,573
Net investment in capital assets	\$ 819	\$ (46)	\$ 865	\$ (6)	\$ 871
Unrestricted Net Position (Deficit)	(80,498)	(6,246)	(74,252)	2,383	(76,635)
Total Net Position (Deficit)	\$ (79,679)		\$ (73,387)		\$ (75,764)

CONNECTICUT LOTTERY CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2018 AND 2017

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Listed below is a summary of the key components of revenues, expenses and changes in net position.

	2018	Increase (Decrease)	2017	Increase (Decrease)	2016
<i>(in thousands)</i>					
Revenues					
Total operating revenues, net	\$ 1,267,591	\$ 51,329	\$ 1,216,262	\$ (14,507)	\$ 1,230,769
Other operating income	40	(84)	124	67	57
Nonoperating revenues					
Interest income	6,287	(79)	6,366	(231)	6,597
Other	7	-	7	(3)	10
Total Revenues	\$ 1,273,926	\$ 51,166	\$ 1,222,759	\$ (14,674)	\$ 1,237,433
Costs and Expenses					
Total cost of sales	\$ 898,548	\$ 42,765	\$ 855,783	\$ (4,082)	\$ 859,865
Total operating expenses	25,736	1,093	24,644	5,215	19,429
Nonoperating expense					
Interest expense	5,904	(306)	6,209	(353)	6,562
Total Costs and Expenses	\$ 930,188	\$ 43,552	\$ 886,635	\$ 779	\$ 885,856
Changes in Net Position					
Change in Net Position before contributions to State Funds	\$ 343,738	\$ 7,614	\$ 336,124	\$ (15,453)	\$ 351,577
Payment to General Fund	345,000	15,000	330,000	(7,500)	337,500
Payment to Chronic Gamblers' Fund	2,300	-	2,300	-	2,300
Payment to Office of Policy and Management	2,730	45	2,685	(84)	2,769
Total Change in Net Position	\$ (6,292)		\$ 1,139		\$ 9,008
Total Net Position (Deficit), beginning as previously stated	\$ (73,387)		\$ (74,526)		\$ (34,654)
Cumulative effect of implementing GASB 75	-		-		(48,880)
Total Net Position (Deficit), beginning as restated	\$ (73,387)		\$ (74,526)		\$ (83,534)
Total Net Position (Deficit), ending balance	\$ (79,679)		\$ (73,387)		\$ (74,526)

OVERVIEW OF FINANCIAL POSITION

Total assets were \$190.6 million as of June 30, 2018, an increase of \$5.6 million compared to the prior fiscal year. Current assets totaled \$62.6 million comprised primarily of cash and cash equivalents of \$22.0 million, accounts receivable of \$27.2 million, and investments for prize payments of \$6.2 million. Noncurrent assets totaled \$127.2 million, consisting primarily of investments for prize payments (at present value) and prize reserves. Investments for prize payments consist of annuity contracts from qualified life insurance companies in equal amounts and with the same maturities as the prizes payable to the lottery winners. The annuity contracts provide payments required to meet the obligations of Lottery prize disbursements.

The Lottery also reported \$2.9 million in other assets relating to upfront Keno equipment lease costs incurred that will be amortized over the remaining life of the gaming contract.

Total liabilities were \$284.4 million as of June 30, 2018 an increase of \$8.7 million from the prior fiscal year. Current liabilities due within one year totaled \$56.7 million primarily related to prizes, annuity prize payments, and accounts payable and accrued expenses. Long-term liabilities totaled \$227.7 million and included long-term annuities payable to lottery winners with prizes payable over several years. Other long-term liabilities include the net pension liability and net OPEB liability which is the Lottery's proportionate share of the State of CT net pension liability and net OPEB liability and deferred rent.

Deferred outflows of resources totaled \$18.6 million and deferred inflows of resources totaled \$4.4 million as of June 30, 2018. Deferred outflows of resources reflect the net impact of Lottery contributions made to the State Employees' Retirement System (SERS) pension and OPEB plans subsequent to the measurement date, the net impact of the difference between expected and actual experience, the net difference between projected and actual earnings on pension plan investments, and changes in actuarial assumptions. Deferred inflows are recognized for changes in the Lottery's proportionate share of the State's pension and OPEB liabilities.

Total assets were \$184.9 million as of June 30, 2017, a decrease of \$3.3 million compared to the prior fiscal year. Current assets totaled \$58.4 million, comprised primarily of cash and cash equivalents of \$19.2 million, accounts receivable of \$27.4 million, and investments for prize payments of \$5.7 million. Noncurrent assets totaled \$126.6 million, consisting primarily of investments for prize payments (at present value) and prize reserves. Investments for prize payments consist of annuity contracts from qualified life insurance companies in equal amounts and with the same maturities as the prizes payable to the lottery winners. The annuity contracts provide payments required to meet the obligations of Lottery prize disbursements.

The Lottery reported \$1.9 million in other assets relating to upfront equipment lease costs incurred in conjunction with the implementation of Keno that will be amortized over the remaining life of the gaming contract.

Total liabilities were \$275.6 million as of June 30, 2017 an increase of \$61.8 million from the prior fiscal year. Current liabilities due within one year totaled \$48.0 million primarily related to prizes, annuity prize payments, and accounts payable and accrued expenses. Long-term liabilities totaled \$227.7 million and included long-term annuities payable to lottery winners with prizes payable over several years. Other long-term liabilities include the net pension liability and OPEB liability which is the Lottery's proportionate share of the State of Connecticut net pension liability and deferred rent.

CONNECTICUT LOTTERY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, JUNE 30, 2018 AND 2017

OVERVIEW OF FINANCIAL POSITION (CONTINUED)

Deferred outflows of resources totaled \$16.7 million and deferred inflows of resources totaled \$4.0 million as of June 30, 2017. Deferred outflows of resources reflect the net impact of Lottery contributions made to the State Employees' Retirement System (SERS) pension and OPEB plans subsequent to the measurement date, the net impact of the difference between expected and actual experience, the net difference between projected and actual earnings on pension plan investments, and changes in actuarial assumptions. Deferred inflows are recognized for changes in the Lottery's proportionate share of the State's pension and OPEB liabilities.

Sales revenue and the related expenses are detailed in the table below:

	2018	\$	%	2017	\$	%	2016	
	<i>(in thousands)</i>							
		Increase (Decrease)				Increase (Decrease)		
SALES								
Instant games	\$ 730,692	\$ 10,068	1.4%	\$ 720,624	\$ (21,672)	-2.9%	\$ 742,296	
Daily number games	242,485	2,402	1.0%	240,083	(4,979)	-2.0%	245,062	
Multi-State games*	149,870	21,739	17.0%	128,131	(29,253)	-18.6%	157,384	
Keno	86,428	14,246	19.7%	72,182	59,738	480.5%	12,444	
Lotto	18,815	510	2.8%	18,305	(1,124)	-5.8%	19,429	
Cash5	31,214	1,135	3.8%	30,079	(915)	-3.0%	30,994	
Lucky Links	5,942	(916)	-13.4%	6,858	(3,195)	-31.8%	10,053	
5 Card Cash	–	–	–	–	(13,107)	-100.0%	13,107	
CT Super Draw	2,146	2,146	–	–	–	–	–	
Total Sales	\$1,267,592	\$ 51,330	4.2%	\$ 1,216,262	\$ (14,507)	-1.2%	\$ 1,230,769	

RELATED EXPENSES

Prize expense	\$ 792,590	\$ 36,301	4.8%	\$ 756,289	\$ (3,980)	7.4%	\$ 760,269
Retailer commissions	70,823	2,839	4.2%	67,984	(704)	6.9%	68,688
Gaming systems	13,708	1,187	9.5%	12,521	1,069	9.1%	11,452
Marketing and advertising	12,776	710	5.9%	12,066	(334)	10.7%	12,400
Production expenses	8,651	1,728	25.0%	6,923	(134)	8.1%	7,057

*Includes sales from Powerball, Mega Millions and Lucky for Life games.

Total sales revenue for the fiscal year 2018 amounted to \$1,267.6 million, up \$51.3 million, or 4.2%, from the prior fiscal year. All games exhibited higher sales volume except for Lucky Links. Sales revenue for the portfolio of instant games totaled \$730.7, up \$10.1 million, or 1.4%, from the prior fiscal year. The daily number games contributed \$242.5 million of sales revenue, up \$2.4 million or 1.0% from the prior fiscal year. The sales revenue for multi-state games equaled \$149.9 million, an increase of \$21.7 million or 17.0% from the prior fiscal year. The increase year over year is partially attributable to the increase in the price of a Mega Millions ticket rising from \$1 to \$2 in October 2017. All other game sales totaled \$58.1 million, up \$2.9 million or 5.3%, from the prior fiscal year.

OVERVIEW OF FINANCIAL POSITION (CONTINUED)

Most costs and expenses that comprise total cost of sales vary proportionally with the change in total sales. Prize expense, retailer commissions, gaming systems and production expenses are included in this classification.

Prize expense for the instant ticket portfolio is predetermined since the instant ticket prize structure is developed using certain parameters, including the number and value of winning tickets. Prize expense for online draw games is designed with a specific prize structure, however, prize expense fluctuates due to variable payouts on the selection of winning numbers from random drawings. Total prize expense for the period ending June 30, 2018 amounted to \$792.6 million compared to \$756.3 million in the prior year. The increase is chiefly related to the higher sales revenue.

Retailer commissions totaled \$70.8 million compared to \$68.0 million in the prior year. Retailers earn selling and cashing commissions and are eligible for various incentive compensation throughout the year to promote selected games and activities.

Gaming system and network administration expenses totaled \$13.7 million compared to \$12.5 million in the prior year. Production expenses were \$8.7 million compared to \$6.9 million in the prior year. Production expenses are chiefly related to the design, delivery and distribution of instant tickets.

Marketing and advertising expenses totaled \$12.8 million for fiscal year 2018 compared to \$12.1 million in the prior year. Marketing and advertising expenses are incurred to support the mission of maximizing returns to the General Fund. Marketing and advertising encompass all major media including, television, radio and digital as well as lottery designed point of sale.

Operating expenses totaled \$25.7 million for the year ending June 30, 2018, compared to \$24.6 million in the prior year. Operating expenses are mainly comprised of salaries and benefits and other operating expenses.

Nonoperating revenues and expenses are primarily comprised of interest income and interest expense related to the annuity contracts. Annuity contracts provide payments required to meet the obligations of Lottery prize disbursements.

The total payments to the State's General Fund totaled \$345.0 million compared to \$330.0 million in the prior year. Payments to the General Fund reflect the net earnings of the Lottery that are available for transfer. The Lottery also makes statutorily required payments to the Chronic Gamblers Fund of \$2.3 million annually. The Lottery reimburses the Office of Policy and Management to compensate the Department of Consumer Protection for the reasonable and necessary costs for regulatory oversight. Regulatory costs totaled \$2.7 million for both fiscal years.

BUDGETARY COMPARISONS

The Lottery's management prepares an annual budget that is reviewed and approved by its Board of Directors. The budget reflects management's expectation for results of operations based upon market trends and business strategies employed by the Lottery to maximize the payments to the State's General Fund. As a quasi-public corporation, the Lottery's annual budget does not require legislative approval and is not part of the State's legislatively enacted budget. Therefore, no budgetary statement is included in the audited financial statements.

CAPITAL ASSETS AND LONG-TERM DEBT

The Lottery leases office and warehouse facilities under long-term operating leases. Capital assets consist of leasehold improvements to facilities, computer equipment and office furniture and equipment. Capital assets are not a significant portion of Lottery's total assets.

The Lottery has acquired capital assets with proceeds from operations and has not used financing from long-term debt. The Lottery has no long-term liabilities other than the long-term annuities payable to lottery winners, net pension liability, net OPEB liability, and deferred rent. For more detailed information on capital asset activity and long-term liabilities, please review the disclosures included in the notes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Lottery's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to:

CT Lottery Corporation
c/o Finance Department
777 Brook Street
Rocky Hill, Connecticut 06067

CONNECTICUT LOTTERY CORPORATION
STATEMENTS OF NET POSITION (DEFICIT)

	June 30	
	2018	2017 (restated)
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 21,998,427	\$ 19,245,128
Accounts receivable, net of allowance for doubtful accounts of \$500,000 in 2018 and 2017	27,181,977	27,354,061
Investments for prize payments, at net present value	6,174,799	5,651,375
Accrued interest receivable	1,325,334	1,457,709
Ticket inventory, net of allowance of \$772,000 in 2018 and \$714,000 in 2017	4,586,784	3,655,199
Prepaid expenses	1,328,933	990,634
	Total Current Assets	\$ 58,354,106
NONCURRENT ASSETS		
Investments for prize payments at present value	\$ 119,045,115	\$ 119,049,872
Prize reserves held by Multi-State Lottery Association	5,218,025	4,665,670
Capital assets, net	819,114	864,818
Advances to high-tier claim centers	—	150,000
Prepaid expenses	2,892,857	1,864,286
	Total Noncurrent Assets	\$ 126,594,646
	Total Assets	\$ 184,948,752
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount for pensions	\$ 14,803,645	\$ 17,674,192
Deferred amount for OPEB	3,712,228	3,607,710
	Total Deferred Outflows of Resources	\$ 21,281,902

The accompanying notes are an integral part of these financial statements.

	June 30	
	2018	2017 (restated)
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Annuities payable, at net present value	\$ 6,662,743	\$ 6,384,423
Prizes payable	37,566,351	29,802,436
Accrued interest payable	1,325,334	1,457,709
Accounts payable and accrued expenses	8,166,353	7,941,990
Due to regional game states	830,749	605,911
Due to Multi-State Lottery Association	1,473,015	1,002,621
Unearned revenue	619,607	759,765
<i>Total Current Liabilities</i>	\$ 56,644,152	\$ 47,954,855
LONG-TERM LIABILITIES		
Long-term annuities payable, at net present value	\$ 119,045,115	\$ 119,049,872
Deferred rent	426,486	465,533
Net pension liability	53,857,469	55,669,017
Net OPEB liability	54,381,510	52,487,844
<i>Total Long-Term Liabilities</i>	\$ 227,710,580	\$ 227,672,266
<i>Total Liabilities</i>	\$ 284,354,732	\$ 275,627,121
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on pensions	\$ 3,045,519	\$ 3,990,801
Deferred amount for OPEB	1,366,210	
<i>Total Deferred Inflows of Resources</i>	\$ 4,411,729	\$ 3,990,801
NET POSITION (DEFICIT)		
Net investment in capital assets	\$ 819,114	\$ 864,818
Unrestricted	(80,498,337)	(74,252,086)
<i>Total Net Position (Deficit)</i>	\$ (79,679,223)	\$ (73,387,268)

The accompanying notes are an integral part of these financial statements.

CONNECTICUT LOTTERY CORPORATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)

	Years ended June 30	
	2018	2017 (restated)
OPERATING REVENUES – GAME SALES		
Instant	\$ 731,923,632	\$ 720,624,413
Online	390,518,397	370,158,304
Multi-State	149,901,876	128,173,556
	\$ 1,272,343,905	\$ 1,218,956,273
Less sales returns, cancellations and promotions	(4,752,622)	(2,694,252)
	Total Operating Revenues	\$ 1,267,591,283
	\$ 1,267,591,283	\$ 1,216,262,021
COST OF SALES		
Prize expense	\$ 792,589,574	\$ 756,288,867
Retailer commissions	70,822,890	67,983,529
Gaming systems	13,708,496	12,521,393
Marketing and advertising	12,775,710	12,066,305
Production expenses	8,651,251	6,922,504
	Total Cost of Sales	\$ 898,547,921
	\$ 898,547,921	\$ 855,782,598
OPERATING EXPENSES		
Salaries and benefits	\$ 21,845,610	\$ 20,414,333
Other operating expenses	3,559,672	3,883,699
Depreciation and amortization	304,849	298,689
Bad debt expense	26,288	46,953
	Total Operating Expenses	\$ 25,736,419
	\$ 25,736,419	\$ 24,643,674
OTHER OPERATING INCOME		
	\$ 39,842	\$ 124,283
	Operating Income	\$ 343,346,785
	\$ 343,346,785	\$ 335,960,032

The accompanying notes are an integral part of these financial statements.

	Years ended June 30	
	2018	2017 (restated)
NON-OPERATING REVENUES (EXPENSES)		
Interest income from investments on annuities	\$ 5,903,508	\$ 6,209,137
Interest income	383,984	157,004
Interest expense on annuity payments	(5,903,508)	(6,209,137)
Annuity assignment	7,000	7,000
Total Nonoperating Revenues	\$ 390,984	\$ 164,004
CHANGE IN NET POSITION AVAILABLE BEFORE PAYMENTS TO THE STATE OF CONNECTICUT FUNDS	\$ 343,737,769	\$ 336,124,036
NONOPERATING PAYMENTS TO THE STATE OF CONNECTICUT FUNDS		
General Fund	\$ 345,000,000	\$ 330,000,000
Office of Policy and Management	2,729,724	2,685,182
Chronic Gamblers' Fund	2,300,000	2,300,000
Change in Net Position (Deficit)	\$ (6,291,955)	\$ 1,138,854
TOTAL NET POSITION (DEFICIT), beginning of year, as restated	\$ (73,387,268)	\$ (74,526,122)
TOTAL NET POSITION (DEFICIT), end of year	\$ (79,679,223)	\$ (73,387,268)

The accompanying notes are an integral part of these financial statements.

CONNECTICUT LOTTERY CORPORATION

STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2018	2017 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from sale of game tickets	\$ 1,267,596,921	\$ 1,215,632,114
Receipts from other operating income	39,842	124,283
Payments for prizes	(784,682,782)	(755,561,689)
Payments to retailers	(70,822,890)	(67,983,529)
Payments to suppliers	(37,209,549)	(34,353,095)
Payments to employees	(18,576,535)	(18,965,768)
Payments for other expenses	(3,448,719)	(3,872,746)
<i>Net Cash Provided by Operating Activities</i>	\$ 352,896,288	\$ 335,019,570
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of principal from annuities	\$ 6,264,848	\$ 8,865,708
Receipts of interest from annuities	6,035,883	6,392,909
Receipt of interest from cash equivalents	383,984	157,004
Purchase of insurance annuities	(5,848,560)	(2,378,794)
<i>Net Cash Provided by Investing Activities</i>	\$ 6,836,155	\$ 13,036,827
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	\$ (259,145)	\$ (292,812)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment of principal on long-term annuities	\$ (6,509,952)	\$ (8,802,910)
Payment of interest on long-term annuities payable	(6,035,883)	(6,392,909)
Annuity assignment	7,000	7,000
Payments to the State of Connecticut	(345,000,000)	(330,000,000)
Payments to Office of Policy and Management	(2,729,724)	(2,685,182)
Payments to the Chronic Gamblers' Fund	(2,300,000)	(2,300,000)
Receipts from annuities	5,848,560	2,378,794
<i>Net Cash Used in Noncapital Financing Activities</i>	\$ (356,719,999)	\$ (347,795,207)

The accompanying notes are an integral part of these financial statements.

	Years ended June 30	
	2018	2017 (restated)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 2,753,299	\$ (31,622)
CASH AND CASH EQUIVALENTS – Beginning of year	19,245,128	19,276,750
CASH AND CASH EQUIVALENTS – End of year	\$ 21,998,427	\$ 19,245,128
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 343,346,785	\$ 335,960,032
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	304,849	298,689
Bad debt expense	26,288	46,953
Deferrals of pension and OPEB expense	3,269,075	1,448,565
Changes in operating assets and liabilities:		
Accounts receivable	145,796	(337,690)
Accounts payable and accrued expenses	(931,585)	(556,065)
Ticket inventory	(338,299)	(443,631)
Prepaid expenses	(552,355)	21,088
Prize reserves	150,000	(31,294)
Advance to high-tier claim centers	(1,028,571)	50,000
Prizes payable	7,763,915	1,148,721
Due to Multi-State Lottery Association	224,363	(479,291)
Due to regional game states	224,838	89,044
Unearned revenue	470,394	(292,218)
Deferred rent liability	(140,158)	(39,047)
Prepaid expenses - long term	(39,047)	(1,864,286)
<i>Net Cash Provided by Operating Activities</i>	\$ 352,896,288	\$ 335,019,570

The accompanying notes are an integral part of these financial statements.

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Connecticut Lottery Corporation (the Lottery), a body politic and corporate, constituting a public instrumentality and political subdivision of the State of Connecticut (the State), was created by Public Act 96-212 on July 1, 1996, for the purpose of generating revenues for the State of Connecticut’s General Fund through the operation of a lottery. The Lottery is governed by a thirteen-member board with eleven directors appointed by the Governor and Legislature plus two ex-officio members, the State Treasurer and the Secretary of the Office of Policy and Management. The Lottery is administered by a President appointed by the Board of Directors.

For financial reporting purposes, the Lottery is considered a component unit of the State of Connecticut. Additional disclosures related to Connecticut’s self-insurance funds, unemployment insurance compensation, state pension plans, post-employment benefits, and workers’ compensation benefits are included in the State of Connecticut’s Comprehensive Annual Financial Report.

These financial statements include all Lottery activity and do not include any activity related to any other state agency or fund.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting methods and procedures adopted by the Lottery conform to U.S. generally accepted accounting principles (GAAP) for governmental enterprise funds. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges (sales).

The Lottery’s activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. In its accounting and financial reporting, the Lottery follows the pronouncements of the Governmental Accounting Standards Board (GASB). All assets, and liabilities, net position, revenues and expenses are accounted for in an enterprise fund with revenues recorded when earned and expenses recorded when the related liability is incurred.

SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents — The balance in the cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities. Short-term investments of surplus cash are recorded at cost plus accrued interest, which approximate fair value. For purposes of reporting cash flows, cash and cash equivalents include all cash accounts, deposits with the State Treasurer’s Short-Term Investment Fund (STIF), and investments with an original maturity of three months or less when purchased.

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments for Prize Payments — Investments for prize payments are recorded based on the present value of an annuity contract at terms to yield a series of future payments required to meet the obligations of the Lottery for prize disbursements. The Lottery purchases annuity contracts from insurance companies to fund its liability for installment prize awards. An annuity contract represents an obligation by an insurance company to provide a series of payments over future periods. Annuity contracts are subject to credit risk. The Lottery seeks to control its exposure to such credit risk by purchasing annuity contracts only from insurance companies that meet certain minimum standards. Such standards include a minimum required credit rating from one of three rating agencies. Due to the long-term nature of these contracts, the credit quality of the issuer is subject to change. Amounts recorded as prize expense reflect the cost of the annuity contracts necessary to satisfy both installment prize awards and single payment awards.

Accounts Receivable — Accounts receivable are reported at their gross amount, reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible accounts is based on an analysis of delinquent accounts which considers both qualitative and quantitative factors affecting the collectability of past due balances.

Ticket Inventory — Instant game tickets are purchased from printing vendors. Unsold tickets are held in inventory and valued at the lower of cost or net realizable value using the specific identification method. Inventories are reported at their gross amount, reduced by the estimated portion that is provided for scrapped instant inventory tickets. The cost of tickets is recorded as cost of sales. The cost of unissued tickets and returned tickets are written off at year end as an adjustment to inventory.

Capital Assets — The capitalization threshold for the purchase of equipment and leasehold improvements is \$5,000. Capital assets are reported at cost and are depreciated using the straight-line method over the following estimated useful lives:

Computer equipment	5 years
Furniture and equipment	10 years
Leasehold improvements	*remainder of lease term

*The lease at 777 Brook Street, Rocky Hill, Connecticut, expires in May 2023.

Prizes Payable — Prizes payable represents the difference between the prize liability and the actual prizes redeemed. The Lottery honors winning lottery tickets for up to 180 days after the drawing in which the prizes are won for draw game prizes or the official end of game for instant game prizes. After 180 days, the liability is extinguished and the related income is categorized as an unclaimed prize (see Unclaimed Prizes).

Pension — The Lottery’s proportionate share of the net pension liability, deferred outflows of resources, deferred inflows of resources and expense associated with the Lottery’s requirement to contribute to the Connecticut State Employees Retirement System (SERS) have been determined on the same basis as they are reported by SERS. Contributions made to SERS after the measurement date and prior to the Lottery’s fiscal year end are reported as deferred outflows of resources.

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Post Employment Benefit — The Lottery’s proportionate share of the net OPEB liability, deferred outflows of resources, deferred inflows of resources and expense associated with the Lottery’s requirement to contribute to the State of Connecticut Other Post Employment Benefits Program has been determined on the same basis as they are reported by the State of Connecticut Other Post Employment Benefits Program. Contributions made to the State of Connecticut Other Post Employment Benefits Program after the measurement date and prior to the Lottery’s fiscal year end are reported as deferred outflows of resources.

Deferred Outflows/Inflows of Resources — In addition to assets, the Lottery presents a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period or periods and so will not be recognized as an outflow of resources (expense) until then. The Lottery reports deferred outflows related to pension and OPEB in the statement of net position which result from differences between expected and actual experience, changes in assumptions or other inputs, and contributions after the measurement date. These amounts are deferred and included in pension expense and OPEB expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits.

In addition to liabilities, the Lottery presents a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The Lottery reports deferred inflows of resources related to pension and OPEB in the consolidated statement of net position, which result from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension and OPEB expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits.

Compensated Absences

Under the terms of its various union contracts, Lottery employees are granted vacation in varying amounts based on length of service. Certain employees may carry over a limited number of unused vacation days to subsequent years and, in the event of termination or resignation, these employees are reimbursed for accumulated vacation.

Under the terms of its various union contracts, Lottery employees are granted sick leave in varying amounts. Laid-off employees may retain accrued sick leave provided they return to service on a permanent basis. An employee who has resigned from service in good standing and is re-employed within one year from resignation shall also retain sick leave accrued to their credit as of the effective date of their resignation.

Revenue Recognition

- *Instant game tickets* – Packs of instant games are consigned to retail sales agents, and revenue is recognized when the pack is sold. For any partial packs at year end, the Lottery estimates 50% of the tickets within these packs have been sold and recognizes that proportionate share of the tickets as revenue.
- *Draw game tickets* – Tickets for draw games are sold through electronic terminals at retail sales locations, and revenue is recognized on the date of the drawing, with the exception of the CT Super Draw game. Revenue for the CT Super Draw game is recognized as tickets are sold by the retail agents.

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating and Non-operating Revenues and Expenses — Operating revenues are primarily derived from sales of Lottery tickets. Operating expenses include the costs and expenses incurred in the sale of the Lottery’s game offerings. Nonoperating revenues are generally derived from interest earned on annuity contracts and accumulated cash balances. Nonoperating expenses are primarily derived from interest expense from long-term annuity payments.

Prize Expense — Prize expense for instant games is recognized at the time of sale based on the predetermined prize structure for each game and is periodically adjusted to actual as known. Prize expense for draw games is recognized at the time of actual drawings, with the exception of the CT Super Draw game. Prize expense for the CT Super Draw game is recognized based upon the relationship of the predetermine prize structure to the number of actual tickets sold in order to properly match revenues and expenses.

Prizes may be claimed up to 180 days after the official end of the game for instant games and up to 180 days after the draw date for draw games. Because winning tickets may be lost, destroyed or not redeemed for other reasons, there will be differences between amounts accrued and the amounts actually paid for prizes. Those differences are recognized as a reduction of prize expense 181 days after the end of the instant game or drawing date, as appropriate (see Unclaimed Prizes). Powerball and MegaMillions prize expense is recognized in accordance with the Multi-State Lottery Association agreement (see Note 6).

Unclaimed Prizes — As noted above, prizes must be claimed within 180 days from the date of the official end of the game for instant games and date of the drawing for draw games. Any prizes not claimed within this period are classified as unclaimed. In accordance with Connecticut General Statutes Section 12-806, the Lottery may retain unclaimed prize funds as additional revenue for the State, for promotions used to increase sales, or to return to the participants in a manner designed to increase sales.

Prize Payments — Connecticut General Statutes Section 12-812 states that the aggregate amount of prizes shall not be less than 45% of sales unless required by the terms of any agreement entered into for multi-state lottery games. For the fiscal years ended June 30, 2018 and 2017, the prize expense amounted to 62.5% and 62.2% of Lottery sales, respectively.

Marketing, Advertising and Promotion — The Lottery expenses the costs of marketing, advertising and promotion as they are incurred.

Payments to the State of Connecticut — The Lottery transfers excess funds from operations to contribute to the general revenues of the State of Connecticut. By statute, the Lottery also reimburses the Office of Policy and Management for the expenses incurred by the Department of Consumer Protection for the costs of regulation and provides funds for the Chronic Gamblers’ Treatment Rehabilitation account.

Retailer Commissions — Retailers earn commissions at the rate of 5% of lottery ticket sales and 1% of lottery tickets cashed. Retailers may earn additional compensation through product promotions offered by the Lottery.

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position — Net position is negative as a result of recognition of the prorated share of the State of Connecticut obligation for pensions and other post employment benefits. Net investment in capital assets represents resources net of accumulated depreciation invested in capital assets.

Use of Estimates in Preparation of Financial Statements — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH, CASH EQUIVALENTS AND CREDIT RISK

In accordance with Chapter 229a and Sections 3-20 and 3-27a of the Connecticut General Statutes (C.G.S.), excess funds of the Lottery may be deposited with the treasurer in such fund or funds of the State as appropriate or at the direction of the treasurer in a commercial bank or trust company with or without security to the credit of such fund or funds, or may be invested by, or at the discretion of the treasurer in bonds or obligations of, or guaranteed by, the State or the United States, or paper, savings accounts and bank acceptances, in the obligations of any state of the United States or any political subdivision, authority or agency thereof, provided that at the time of investment such obligations are rated within one of the top two rating categories of any nationally recognized rating service or of any rating service recognized by the State Commissioner of Banking, and applicable to such obligations, in the obligations of any regional school district in this State or any metropolitan district in this State, provided that at the time of investment such obligations of such government entity are rated within one of the top three rating categories of any nationally recognized rating service or any rating service recognized by the State Commissioner of Banking, and applicable to such obligations, or in any fund in which a trustee may invest pursuant to C.G.S. Section 36a-353.

At June 30, 2018 and 2017, the carrying amounts of the Lottery’s deposits were \$913,907 and \$2,978,291 respectively. Bank deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2018, the Lottery’s bank balance was \$1,724,319. Of this amount, \$250,000 was covered by the FDIC and \$1,474,319 was collateralized with securities held by the pledging financial institution at the Federal Reserve Bank under the name of the State Commissioner of Banking.

At June 30, 2018 and 2017, the Lottery also had uninsured and uncollateralized investments of \$21,048,389 and \$16,245,966, respectively, in the State Treasurer’s Short-Term Investment Fund (STIF). Cash invested in STIF is classified as pooled investments and, therefore, not categorized by risk type. The STIF is an investment pool of high-quality, short-term money market instruments. Operated in a manner similar to money-market mutual funds, STIF is rated AAAM by Standard & Poor’s and has an average maturity of under 60 days. STIF serves as an investment vehicle for the operating cash of the State Treasury, State agencies and authorities, municipalities and other political subdivisions of the State.

The Lottery’s daily bank investments and short-term STIF investments are invested in highly liquid, short-term assets that create no interest rate risk for the Lottery. The weighted average maturity of the underlying assets within the STIF investments is 35 days as of June 30, 2018. The Lottery’s stated policy is to invest in highly liquid, short-term assets.

NOTE 3 - INVESTMENTS AND CREDIT RISK

In accordance with GASB 72, the Lottery categorizes the fair value measurements of its investments within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

Level 1 - Inputs are quoted prices for identical investments in active markets.

Level 2 - Observable inputs other than quoted market prices.

Level 3 - Unobservable inputs.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement.

The Lottery's investments in the annuity contracts and the corresponding annuities payable are reported at their net present value, which is calculated by discounting the future cash inflows (for investments) and outflows (for annuities payable) back to year end and are categorized as Level 2 instruments.

The Lottery had the following investments as of June 30, 2018 and 2017:

	<u>Carrying Amount</u>	<u>Fair Value</u>
June 30, 2018		
Annuity contracts (at present value discounted at approximately 4.8%)	\$ 125,219,914	\$ 125,219,914
June 30, 2017		
Annuity contracts (at present value discounted at approximately 4.8%)	\$ 124,701,247	\$ 124,701,247

The Lottery has uncollateralized annuities with the following insurance companies that represent more than 5% of the outstanding total as follows at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Insurance Company		
Ohio National Life Insurance	\$ 41,628,587	\$ 39,206,959
Metropolitan Life Insurance	39,207,041	38,515,100
Savings Bank Life Insurance Co. of Massachusetts	26,636,836	27,029,798
John Hancock Life Insurance	8,606,991	10,543,389

As of June 30, 2018 and 2017, the Lottery's investments with the above institutions had ratings by A.M. Best Company ranging between A+ and A++.

All annuity contracts are purchased through a formal proposal process administered by the Lottery. Insurance company qualifications are reviewed by the Connecticut Insurance Department.

Due to the matching of the terms of the annuity prize liabilities and the related long-term investments, no interest rate risk results from these long-term investments, and therefore, the Lottery maintains no stated policy regarding interest rate risk on long-term investments.

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2018 AND 2017

NOTE 4 - CAPITAL ASSETS

A summary of capital assets is presented below:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital Assets:				
Computer equipment	\$ 1,845,789	\$ 173,290		\$ 2,019,079
Furniture and equipment	2,772,794			2,772,794
Leasehold improvements	1,141,581	85,853		1,227,434
<i>Total capital assets</i>	\$ 5,760,164	\$ 259,143	\$ -	\$ 6,019,307
Accumulated Depreciation				
Computer equipment	\$ 1,557,776	\$ 81,112		\$ 1,638,888
Furniture and equipment	2,416,799	120,366		2,537,165
Leasehold improvements	920,771	103,369		1,024,140
<i>Total accumulated depreciation</i>	\$ 4,895,346	\$ 304,847	\$ -	\$ 5,200,193
Capital Assets, Net	\$ 864,818	\$ (45,704)	\$ -	\$ 819,114

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets:				
Computer equipment	\$ 1,631,504	\$ 226,561	\$ 12,276	\$ 1,845,789
Furniture and equipment	2,938,300		165,506	2,772,794
Leasehold improvements	1,075,330	66,251		1,141,581
<i>Total capital assets</i>	\$ 5,645,134	\$ 292,812	\$ 177,782	\$ 5,760,164
Accumulated Depreciation				
Computer equipment	\$ 1,489,979	\$ 80,073	\$ 12,276	\$ 1,557,776
Furniture and equipment	2,461,659	120,646	165,506	2,416,799
Leasehold improvements	822,801	97,970		920,771
<i>Total accumulated depreciation</i>	\$ 4,774,439	\$ 298,689	\$ 177,782	\$ 4,895,346
Capital Assets, Net	\$ 870,695	\$ (5,877)	\$ -	\$ 864,818

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2018 AND 2017

NOTE 5 - LONG-TERM OBLIGATIONS

Long-term payment requirements for annuities payable for the last two fiscal years as follows:

	Beginning Balance		Additions		Reductions		Ending Balance		Amounts Due Within One Year
Activity for fiscal year 2018	\$ 125,434,295	\$	6,783,515	\$	(6,509,952)	\$	125,707,858	\$	6,662,743
Activity for fiscal year 2017	\$ 131,003,406	\$	3,233,801	\$	(8,802,912)	\$	125,434,295	\$	6,384,423

Presented below is a summary of long-term payment requirements for annuities payable to maturity:

Year ending June 30	Principal	Interest
2019	\$ 6,662,743	\$ 5,875,345
2020	5,148,315	5,554,944
2021	4,444,177	5,259,892
2022	4,062,793	5,015,752
2023	4,136,217	4,807,566
2024 - 2028	18,113,989	21,248,057
2029 - 2033	17,153,602	16,988,398
2034 - 2038	12,821,523	13,423,477
2039 - 2043	11,780,406	10,442,594
2044 - 2048	9,351,625	7,906,875
2049 - 2053	8,173,452	5,966,548
2054 - 2058	7,925,524	4,099,476
2059 - 2063	6,739,527	2,457,473
2064 - 2068	4,957,181	1,271,819
2069 - 2073	2,847,834	462,166
2074 - 2078	966,495	148,505
2079 - 2082	422,455	27,545
	\$ 125,707,858	\$ 110,956,432

This debt represents periodic payments owed to lottery prize winners and is fully funded by investments in annuity contracts. Amounts due after 2038 represent estimates of long-term liabilities related to prizes payable over the recipients' natural lives.

As noted in Note 3 regarding investments, the annuity contracts used to fund periodic payments to prize winners match the amounts and terms of the annuity prize liabilities. Therefore, no interest rate risk results from the long-term debt and the Lottery maintains no stated policy regarding interest rate risk on debt.

NOTE 6 – PARTICIPATION IN MULTI-STATE LOTTERY ASSOCIATION

The Lottery is a member of the Multi-State Lottery Association (MUSL) which operates games on behalf of participating state lotteries. The Lottery participates in the multi-state games of Powerball, Mega Millions and Lucky for Life lottery games.

Each lottery that is a member of MUSL and participates in a multi-state game sells game tickets through its retailers. The Lottery transfers amounts equivalent to its share of the estimated grand prize for Powerball and Mega Millions to MUSL, and those funds are held in trust. The Lottery transfers amounts equivalent to its share for lifetime prizes to MUSL for the Lucky for Life game. Lower tier prizes are paid directly to the winners by each member lottery.

When winning grand prize tickets are drawn in Powerball and Mega Millions, the winner has the option of selecting a discounted lump-sum cash payment or installment payments that increase 5% annually over 30 years. If the winner selects the installment payments, MUSL purchases securities maturing over 30 years to fund the prize for MUSL members or the Mega Millions group purchases securities maturing over 30 years if the prize winner(s) is from a Mega Millions state. The annuity installments are paid to the Lottery, which in turn pays the winners their annual installments. All such prizes are paid annually as the securities are redeemed.

As part of the agreement with MUSL, the Lottery is required to deposit with MUSL additional amounts held as prize reserve funds. Prize reserve funds serve as a contingency reserve to protect MUSL members from unforeseen prize liabilities and the money in this reserve fund is to be used at the discretion of the MUSL Board of Directors. The prize reserve fund monies are refundable in full to the Lottery if MUSL disbands or if the Lottery leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of the prize reserve funds. These amounts earn investment income at market rates, which is used to offset the Lottery’s share of MUSL operating expenses for the year.

Balances at June 30, 2018 and 2017, were as follows:

	2018	2017
Prize reserves held by MUSL	\$ 5,218,025	\$ 4,665,670
Prize liability due to MUSL	1,473,015	1,002,621

NOTE 7 – PENSION PLAN

All employees of the Lottery participate in the State Employees’ Retirement System (SERS), which is administered by the State Employees’ Retirement Commission. The Lottery has no liability for pension costs other than the required annual contribution. In addition, an actuarial study was performed, as of June 30, 2016, on the plan as a whole and does not separate information for employees of the Lottery. Therefore, certain pension disclosures otherwise required pursuant to GAAP are omitted. Information on the total plan funding status and progress, contribution required and trend information can be found in the State of Connecticut’s comprehensive annual financial report.

Plan Description — SERS is the single-employer defined benefit pension plan of the State of Connecticut’s primary government and its component units, covering substantially all of the full-time employees who are not eligible for another State-sponsored retirement plan. The plan is administered by the State Employees’ Retirement Commission and governed by Sections 5-152 to 5-192 of the Connecticut General Statutes.

NOTE 7 – PENSION PLAN (CONTINUED)

Benefits Provided — The Plan provides retirement, disability and death benefits. Employees are covered under one of five tiers, depending on when they were hired. Tier I employees who retire at or after age 65 with 10 years of credited service or at or after age 55 with 25 years of service are eligible for an annual retirement benefit payable monthly for life, in an amount of 2% of the annual average earnings (which are based on the three highest years of service), subject to adjustment on receipt of social security benefits. Employees at age 55 with 10 years but less than 25 years of service, or at age 70 with 5 years of service, are entitled to a reduced benefit.

Tier II and Tier IIA employees who retire at or after age 60 with 25 years of service, or at age 65 with 10 years of service, or at age 70 with 5 years of service, are entitled to an annual retirement benefit payable monthly for life, in an amount of 1.33% of the average annual earnings (which are based on the three highest years of service) plus 5% of the average annual earnings in excess of the salary breakpoint in the year of retirement for each year of credited service. In addition, any years of service over 35 would be at 1.625%. Employees at age 55 with 10 years of credited service, are entitled to a reduced benefit.

Tier III employees full retirement benefits are attained at age 63 with 25 years of service, or at age 65 with 10 years of service and are payable monthly for life in an amount equal to 1.33% of the average annual earnings (which are based on the three highest years of service) plus 5% of the average annual earnings in excess of the salary breakpoint in the year of retirement for each year of credited service. In addition, any years of service over 35 would be at 1.625%. Employees at age 58 with 10 years of service are entitled to a reduced benefit.

The SERS Tier IV consists of a defined benefit (DB) and defined contribution (DC) plan. Tier IV employees full retirement benefits under the DB plan is attained at age 63 with 25 years of service, or at age 65 with 10 years of service and are payable monthly for life in an amount of 1.30% of the average annual earnings (which are based on the five highest years of service). Employees at age 58 with 10 years of service are entitled to a reduced benefit. Employees pay a mandatory 1.0% into the DC plan and the State contributes 1.0% to the account. Employee contributions are vested immediately; employer contributions are 100% vested after completing three years of service.

All Tier I, Tier II, Tier IIA and Tier III members are vested after ten years of service, and each plan provides for death and disability benefits.

The 2011 State Employees Bargaining Agent Coalition (SEBAC) Agreement changed the benefit multiplier for the portion of the benefit below the breakpoint from 1.33% to 1.40%. This change was made effective for all active members who retire on or after July 1, 2013 in Tier II, IIA, and III. Additionally, Tier II and Tier IIA normal retirement eligibility increases to age 63 and 25 years of benefit service or age 65 and 10 years of benefit service, and age 58 and 10 years of benefit service for early retirement effective July 1, 2022. A one-time decision was granted to members not eligible to retire by July 1, 2022 to elect to maintain the same normal retirement eligibility applicable to members who retire before July 1, 2022. Employees who elected by July 1, 2013 to maintain their eligibility are required to make additional employee contributions for the length of their remaining active service with SERS. The additional contribution was up to 0.72% of pensionable earnings.

The 2017 SEBAC Agreement included the addition of the SERS Tier IV for employees hired on or after July 1, 2017. The Tier IV plan includes both DB and DC structure.

NOTE 7 – PENSION PLAN (CONTINUED)

Contributions Made — The Lottery’s contributions to the plan were \$3,368,200 and \$4,456,603 for the fiscal years ended June 30, 2018 and 2017, respectively.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources — GASB 68 requires the Lottery to recognize a net pension liability for the difference between the present value of the projected benefits for past service known as the total pension liability (TPL) and the restricted resources held in trust for the payment of pension benefits, known as the fiduciary net position (FNP). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the FNP of SERS and additions to/deductions from SERS FNP have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit term. Investments are recorded at fair value.

At June 30, 2018 and 2017, the Lottery reported a liability of \$53,857,469 and \$55,669,017, respectively, for its proportionate share of the net pension liability, which was measured as of June 30, 2018 and 2017, respectively. The total pension liability used to calculate the net pension liability was determined by actuarial valuation as of the measurement dates based on actuarial experience studies.

The Lottery’s allocation of the net pension liability was based on total covered payroll multiplied by the SERS contribution rate at each measurement date. For the years ended June 30, 2018 and 2017, the SERS contribution rate was 43.42% and 43.69%, respectively. As of June 30, 2018 and 2017, the Lottery’s proportionate share was 0.25560% and 0.24243%, respectively.

For the year ended June 30, 2018 and 2017, the Lottery recognized pension expense of \$2,967,443 and \$4,991,096, respectively. Pension expense is reported in the Lottery’s financial statements as part of salaries and benefits expense.

At June 30, 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ 1,285,770	\$ —
Net difference between projected and actual earnings on pension plan investments	—	102,839
Change of assumptions	8,252,255	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,897,420	2,942,680
Lottery contributions subsequent to the measurement date	3,368,200	—
	<u>\$ 14,803,645</u>	<u>\$ 3,045,519</u>

CONNECTICUT LOTTERY CORPORATION
NOTES TO FINANCIAL STATEMENTS, JUNE 30, 2018 AND 2017

NOTE 7 – PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources (Continued)

At June 30, 2017, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ 1,546,461	\$ –
Net difference between projected and actual earnings on pension plan investments	1,745,712	–
Change of assumptions	9,925,416	–
Changes in proportion and differences between employer contributions and proportionate share of contributions	–	3,990,801
Lottery contributions subsequent to the measurement date	4,456,603	–
	<u>\$ 17,674,192</u>	<u>\$ 3,990,801</u>

Amounts reported as deferred outflows of resources related to Lottery contributions after the measurement date will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2019	\$ 1,864,995
2020	2,230,469
2021	2,215,743
2022	1,817,007
2023	261,712
	<u>\$ 8,389,926</u>

NOTE 7 – PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions — The total pension liability for the year ended June 30, 2018 was determined based on the roll forward to June 30, 2017 of the annual actuarial funding valuation report prepared as of June 30, 2016. The following actuarial assumptions are summarized below as of June 30:

	2018	2017
Inflation	2.50%	2.50%
Salary increase, including inflation	3.50% - 19.50%	3.50% - 19.50%
Investment rate of return, net of investment expense, including inflation	6.90%	6.90%

The RP-2014 White Collar Mortality Table projected to 2020 by scale BB at 100% for males and 95% for females is used for the period after service retirement and for dependent beneficiaries. The RP-2014 Disabled Retiree Mortality Table at 65% for males and 85% for females is used for the period after disability. The projection of the mortality rates with Scale BB provide a sufficient margin in the assumed rates for mortality to allow for improvement in mortality experience.

Discount Rate — The discount rate used to measure the total pension liability was the long-term expected rate of return, 6.90%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rates and that employer contributions will be made equal to the difference between the projected actuarially determined contribution and member contributions. Projected future benefit payments for all current plan members were projected through the year 2136.

NOTE 7 – PENSION PLAN (CONTINUED)

Expected Rate of Return on Investments — The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equities	21.0%	5.8%
Developed Non-U.S. Equities	18.0%	6.6%
Emerging Market (Non-U.S.)	9.0%	8.3%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Fixed income (Core)	8.0%	1.3%
High yield bonds	5.0%	3.9%
Emerging market bond	4.0%	3.7%
Inflation linked bonds	5.0%	1.0%
Cash	4.0%	0.4%

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in Discount Rates — The following presents the Lottery’s proportionate share of the net pension liability calculated using the discount rate of 6.90%, as well as the proportionate share of the net pension liability using a 1% increase or decrease from the current discount rate:

	1% Decrease (5.90%)	Discount Rate (6.90%)	1% Increase (7.90%)
June 30, 2018	\$ 62,285,100	\$ 53,857,469	\$ 43,358,799
June 30, 2017	\$ 66,062,413	\$ 55,669,017	\$ 47,019,332

NOTE 8 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 7, the State provides post employment health care and life insurance benefits in accordance with State statutes, Sections 5-257(d) and 5-259(a), to all eligible employees who retire from the State, including employees of the Lottery.

Plan Description — Currently, 35 retirees meet those eligibility requirements. When employees retire, the State pays up to 100% of their health care insurance premium cost (including dependent's coverage) depending upon the plan. The State currently pays up to 20% of the cost for retiree dental insurance (including dependent's coverage) depending upon the plan. In addition, the State pays 100% of the premium cost for a portion of the employees' life insurance continued after retirement. The amount of life insurance, continued at no cost to the retiree, is determined based on the number of years of service that the retiree had with the State at time of retirement as follows: (a) if the retiree had 25 years or more of service, the amount of insurance will be one-half of the amount of insurance for which the retiree was insured immediately prior to retirement, but the reduced amount cannot be less than \$10,000; (b) if the retiree had less than 25 years of service, the amount of insurance will be the proportionate amount that such years of service is to 25, rounded to the nearest \$100. The State finances the cost of post employment health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund.

In accordance with the Revised SEBAC 2011 Agreement between the State of Connecticut and the State Employees Bargaining Agent Coalition (SEBAC), all employees shall pay the three percent (3%) retiree health care insurance contribution for a period of ten (10) years or retirement, whichever is sooner. In addition, participants of Tier III shall be required to have fifteen (15) years of actual State service to be eligible for retirement health insurance. Deferred vested retirees who are eligible for retiree health insurance shall be required to meet the rule of seventy-five (75), which is the combination of age and actual State service equaling seventy-five (75) in order to begin receiving retiree health insurance based on applicable SEBAC agreement.

Contributions Made — The Lottery's contributions to the plan were \$2,474,845 and \$2,090,376 for the fiscal years ended June 30, 2018 and 2017, respectively.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources — The implementation of GASB 75 resulted in the Lottery's reporting an initial net OPEB liability, and deferred outflows of resources, for fiscal year 2017. The Statement required the Lottery to recognize a net OPEB liability for the difference between the present value of the projected benefits for the past service known as the total OPEB liability (TOL) and the restricted resources held in trust for the payment of OPEB benefits, known as the fiduciary net position (FNP). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the FNP and additions to/deductions from FNP have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit term. Investments are recorded at fair value.

NOTE 8 - POST EMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

At June 30, 2018 and 2017, the Lottery reported a liability of \$54,381,510 and \$52,487,844, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability as of June 30, 2018 was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by the actuarial valuation as of that date based on actuarial experience studies. The Lottery's allocation of the net OPEB liability was based on the 2017 covered payroll multiplied by the OPEB 2017 contribution rate of 36.58%. As of June 30, 2017 and 2016, the Lottery's proportion was 0.31321% and 0.30441%, respectively.

For the year ended June 30, 2018, the Lottery recognized OPEB expense of \$4,663,399. OPEB expense is reported in the Lottery's financial statements as part of salaries and benefits expense.

At June 30, 2018 the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ —	\$ 1,304,652
Net difference between projected and actual earnings on OPEB plan investments	—	61,558
Change of assumptions	—	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,237,383	—
Lottery contributions subsequent to the measurement date	2,474,845	—
	\$ 3,712,228	\$ 1,366,210

At June 30, 2017, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 1,517,334	\$ —
Lottery contributions subsequent to the measurement date	2,090,376	—
	\$ 3,607,710	\$ —

NOTE 8 – POST EMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

Amounts reported as deferred outflows of resources related to Lottery contributions after the measurement date will be recognized as a reduction of the net OPEB liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2019	\$ (30,607)
2020	(30,607)
2021	(30,607)
2022	(30,613)
2023	(6,393)
	\$ (128,827)

Actuarial Methods and Assumptions — The total OPEB liability in the June 30, 2017 actuarial valuation was determined based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2015. The key actuarial assumptions are summarized below:

Salary increase	3.25% to 19.50% varying by years of service and retirement system
Discount rate	3.68%
Investment rate of return	6.90%
Health care trend rates:	
Medical	6.50% graded to 4.50% over 4 years
Prescription Drug	8.00% graded to 4.50% over 5 years
Dental and Part B	4.50%
Administrative expense	3.00%

Mortality Rates

- *Healthy* – RP-2014 White Collar Mortality Table projected to 2020 by Scale BB at 100% for males and 95% for females.
- *Disabled* – RP-2014 Disabled Retiree Mortality Table at 65% for males and 85% for females.

Discount Rate — The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.68%. The discount rate is a blend of the long term expected rate of return on OPEB Trust assets and a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rate of AA/Aa or higher (3.58% as of June 30, 2017 and 2.85% as of June 30, 2016). The blending is based on the sufficiency of projected assets to make projected benefit payments.

NOTE 8 – POST EMPLOYMENT BENEFITS (CONTINUED)

Expected Rate of Return on Investments — The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rate of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equities	21.0%	5.8%
Developed Non-U.S. Equities	18.0%	6.6%
Emerging Market (Non-U.S.)	9.0%	8.3%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Fixed income (Core)	8.0%	1.3%
High yield bonds	5.0%	3.9%
Emerging market bond	4.0%	3.7%
Inflation linked bonds	5.0%	1.0%
Cash	4.0%	0.4%
	<u>100%</u>	

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rates — The following presents the Lottery’s proportionate share of the net OPEB liability calculated using the discount rate of 3.68%, as well as the proportionate share of the net pension liability using a 1% increase or decrease from the current discount rate as of June 30, 2018:

	1% Decrease (2.68%)	Discount Rate (3.68%)	1% Increase (4.68%)
Net OPEB Liability	\$ 63,120,624	\$ 54,381,510	\$ 47,300,965

NOTE 8 – POST EMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

— The following presents the Lottery’s proportionate share of the net OPEB liability, as well as what the Lottery’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rates	1% Increase
Net OPEB Liability	\$ 46,734,185	\$ 54,381,510	\$ 64,069,662

NOTE 9 – LEASE COMMITMENTS

The Lottery offices are located in Rocky Hill under an operating lease that commenced on April 1, 2008 and extends through June 30, 2023. Monthly rents are approximately \$83,000 from July 1, 2014 through June 30, 2018, and \$87,000 through the end of the term. The Lottery recognizes the lease expense using the straight-line method over the term of the lease arrangement.

The Lottery leases office and warehouse facilities under operating leases. These leases commenced on July 1, 2014 and expire on June 30, 2018. The combined rental amount for these facilities is \$5,896 per month. Extensions have been executed through June 30, 2022 at a combined rental amount of \$6,418 per month.

The Lottery leases instant ticket vending machines under noncancelable operating leases expiring in September 2018. The Lottery leases various office equipment under noncancelable operating leases on various dates through April 2023. All equipment lease obligations are payable in monthly installments.

Similar to all Lottery equipment operated by our retailers, Keno terminals and monitors are leased through Scientific Games, the primary gaming system vendor. The Lottery made up-front payments to the vendor through April 2018, which allows the Lottery to utilize the Keno equipment until the end of the lease term in April 2023.

The Lottery executed a lease for player activated terminals (PATs) in July 2018. The Lottery will make up-front payments to the vendor through December 2018, which allows the Lottery to utilize the PATs until the end of the lease term in April 2023. This contract is coterminous with the gaming system contract.

As of June 30, 2018, and 2017, the Lottery recorded \$3,664,286 and \$2,635,714, respectively, of prepaid expenses related to the lease of the Keno terminals and monitors, of which \$2,892,857 and \$1,864,286 is long term and recorded as other assets in the accompanying statements of net position.

Total lease expense for facilities and equipment was \$2,097,857 and \$2,056,711 for the fiscal years ended June 30, 2018 and 2017, respectively.

NOTE 9 – LEASE COMMITMENTS (CONTINUED)

Future payments for the aforementioned leases are summarized as follows:

Years Ending June 30,		
2019	\$	2,421,452
2020		2,823,576
2021		2,823,576
2022		2,818,121
2023		2,305,173
	\$	13,191,898

NOTE 10 – RISK MANAGEMENT

The Lottery is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption due to disruption of data processing; unfaithful performance; errors and omissions; injuries to employees; and natural disasters. The Lottery purchases commercial insurance for property losses in excess of \$100,000; losses due to employee dishonesty in excess of \$1,000; errors and omissions, torts, injuries to employees, and business interruption due to disruptions of data processing.

Lottery employees participate in three State of Connecticut health plans. For one of these plans, the State is self-insured. This plan is administered by an outside vendor which is responsible for the processing and payment of claims. No separate measurement is made of claims incurred and paid for the Lottery employees. Information regarding the excess of claims incurred over the claims paid for the State as a whole may be found in the comprehensive annual financial report of the State of Connecticut.

Claims expenses and liabilities above amounts covered by insurance are reported when it is probable that a liability has been incurred at the date of the financial statements and the amount of that loss can be reasonably estimated, including an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

During each of the years ended June 30, 2018 and 2017, there were no claims or settlements that have exceeded insurance coverage.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Lottery is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Lottery.

NOTE 12 - PRIOR PERIOD ADJUSTMENT AND RESTATEMENT

The following restatements were recorded to the beginning net position as a result of implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*:

Net Position at June 30, 2016, as previously reported	\$	(24,507,134)
Adjustments:		
Record net OPEB liability per GASB No. 75		(52,487,844)
Record deferred outflows per GASB No. 75		3,607,710
<hr/>		
<i>Net Position at July 1, 2017, as Restated</i>	\$	<i>(73,387,268)</i>
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**REQUIRED
SUPPLEMENTARY
INFORMATION**

CONNECTICUT LOTTERY CORPORATION

SCHEDULE OF THE LOTTERY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Four Fiscal Years	2018	2017	2016	2015
Lottery's portion of the net pension liability	0.25560%	0.24243%	0.24525%	0.27865%
Lottery's proportionate share of the net pension liability	\$ 53,857,469	\$ 55,669,017	\$ 40,525,323	\$ 44,624,031
Lottery's covered-employee payroll	\$ 9,946,740	\$ 10,200,510	\$ 10,490,319	\$ 10,032,666
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	541.46%	545.75%	386.31%	444.79%
Plan fiduciary net position as a percentage of the total pension liability	36.25%	31.69%	39.23%	39.54%

Notes to Schedule

- Change of benefit terms
- A 3-year freeze on all salary increases for fiscal years ending 2017, 2018 and 2019
 - The annual COLA for those retiring on or after July 1, 2022 is based on the annual rate of increase in CPI-W from 0.0% to 2.0%, plus 60% of the annual rate of increase in SPI-W above 6.0% and with a cap on the COLA rate of 7.5%.
 - A COLA moratorium for those retiring on or after July 1, 2022 for the first 30 months of retirement benefits. If rate of increase in CPI-W exceeds an annualized rate of 5.5% during the initial 18-month period of receiving retirement benefits, the COLA provided beginning with the 31st monthly benefit includes an additional adjustment based on the annual COLA rate as determined above using the annualized rate over the 18-month period. The COLA rate applied is reduced by 2.5% and then multiplied by 1.5 to reflect the 18-month period.
 - Increase to all non-Tier IV members' contribution rates by 1.5% of compensation effective July 1, 2017 and an additional 0.5% of compensation effective July 1, 2019.
 - In years where employer contribution increase is due to poor asset returns, half the increase is applied to Tier IV member contribution rate of up to 2% in total.
 - Tier IV Hybrid Plan Structure for All New Hires (Non-Hazardous and Hazardous) after July 1, 2017:
 - i. Non-Hazardous has same retirement eligibility as Tier III
 - ii. Non-hazardous benefit multiplier is 1.30% with no breakpoint

This schedule is presented as required by accounting principles generally accepted in the United States of America; however, until a full 10-year trend is compiled, information is presented for those years available.

CONNECTICUT LOTTERY CORPORATION

SCHEDULE OF THE LOTTERY'S CONTRIBUTIONS TO THE STATE EMPLOYEE'S RETIREMENT SYSTEM (SERS)

Last Eight Fiscal Years	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 3,368,200	\$ 4,456,603	\$ 4,233,893	\$ 3,803,384	\$ 3,401,159	\$ 2,752,875	\$ 2,482,079	\$ 2,288,551
Contributions in relation to the contractually required contribution	3,368,200	4,456,603	4,233,893	3,803,384	3,401,159	2,752,875	2,482,079	2,288,551
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's covered-employee payroll	9,946,740	10,200,510	10,490,319	10,032,666	9,348,981	9,055,510	8,989,782	8,897,944
Contributions as a percentage of covered-employee payroll	33.86%	43.69%	40.36%	37.91%	36.38%	30.40%	27.61%	25.72%

Notes to Schedule

Valuation date:	June 30, 2016
Measurement date:	June 30, 2017

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, closed
Single equivalent amortization period	17 years
Asset valuation method	5-year smoothed market
Inflation	3.75%
Salary increase	4.00-20.00%, including inflation
Investment rate of return	8.00%, net of investment related expense
Mortality	The RP-2014 White Collar Mortality Table projected to 2020 by scale BB at 100% for males and 95% for females is used for the period after service retirement and for dependent beneficiaries. The RP-2014 Disabled Retiree Mortality Table at 65% for males and 85% for females is used for the period after disability.

This schedule is presented as required by accounting principles generally accepted in the United States of America; however, until a full 10-year trend is compiled, information is presented for those years available.

CONNECTICUT LOTTERY CORPORATION

SCHEDULE OF LOTTERY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

Last Two Fiscal Years	2018	2017
Lottery's portion of the net OPEB liability	0.31321%	0.30441%
Lottery's proportionate share of the net OPEB liability	\$ 54,381,510	\$ 52,487,844
Lottery's covered-employee payroll	\$ 9,946,740	\$ 10,200,510
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	546.73%	514.56%
Plan fiduciary net position as a percentage of the total OPEB liability	3.03%	1.94%

Notes to Schedule

Assumption changes since prior valuation:

- The discount rate was updated in accordance with GASB Statement No. 75 to 3.68% as of June 30, 2017 and 2.96% as of June 30, 2016. (Originally, in the prior valuation, the discount rate was 5.70%, calculated in accordance with GASB Statement No. 45).
- The salary scale, total payroll growth rate, mortality rates, disability rates, turnover rates, and actives' retirement rates were updated based on the August 17, 2016 Experience Investigation completed by Cavanaugh Macdonald.
- Inactive vesteds' retirement rates were updated to be based on the normal retirement date provided in the data, rather than the normal retirement age calculated based on service.
- Per capita health costs, administrative expenses and retiree contributions were updated for recent experience.
- Health care cost trend rates and retiree contribution increase rates were adjusted.

This schedule is presented as required by accounting principles generally accepted in the United States of America; however, until a full 10-year trend is compiled, information is presented for those years available.

CONNECTICUT LOTTERY CORPORATION

SCHEDULE OF LOTTERY'S CONTRIBUTIONS TO THE STATE'S OTHER POST EMPLOYMENT BENEFIT PROGRAM

Last Three Fiscal Years	2018	2017	2016
Contractually required contribution	\$ 2,474,845	\$ 2,090,376	\$ 1,221,774
Contributions in relation to the contractually required contribution	2,474,845	2,090,376	1,221,774
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Lottery's covered-employee payroll	\$ 9,946,740	\$ 10,200,510	\$ 10,490,319
Contributions as a percentage of covered-employee payroll	24.88%	20.49%	11.65%

Notes to Schedule

Valuation date: Actuarially determined contribution for fiscal year ending June 30, 2017 was determined with the July 1, 2015 actuarial valuation in conjunction with plan changes highlighted in the GASB 74 Valuation Report for Reporting Date June 30, 2017 dated January 5, 2018

Measurement date: June 30, 2017

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected unit credit
Amortization method	Level percent of growing payroll, closed, 30 years
Remaining amortization period	22 years as of June 30, 2016
Asset valuation method	Market value
Salary increases	3.25% to 19.50% varying by years of service and retirement system.
Mortality	Healthy: RP-2014 White Collar Mortality Table projected to 2020 by Scale BB at 100% for males and 95% for females Disabled: RP-2014 Disabled Retiree Mortality Table at 65% for males and 85% for females

This schedule is presented as required by accounting principles generally accepted in the United States of America; however, until a full 10-year trend is compiled, information is presented for those years available.



COMPLIANCE SECTION

**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Board of Directors
The Connecticut Lottery Corporation
Rocky Hill, Connecticut

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of The Connecticut Lottery Corporation as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise The Connecticut Lottery Corporation's basic financial statements, and have issued our report thereon dated November 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Connecticut Lottery Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Connecticut Lottery Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of The Connecticut Lottery Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Connecticut Lottery Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Connecticut Lottery Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Connecticut Lottery Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
November 9, 2018



SUPPLEMENTAL SCHEDULES

CONNECTICUT LOTTERY CORPORATION
SCHEDULE OF PROFIT MARGINS BY GAME TYPE, YEAR ENDED JUNE 30, 2018

PROFIT CONTRIBUTIONS (\$ in 000s)

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day	Lotto
NET SALES	\$ 730,692	\$ 69,923	\$ 71,838	\$ 51,693	\$ 49,031	\$ 18,815
DIRECT COSTS						
Gross prize expense	\$ 511,062	\$ 34,993	\$ 39,999	\$ 27,025	\$ 20,771	\$ 9,945
Unclaimed prize credit	(4,976)	(510)	(727)	(299)	(390)	(167)
Use of unclaimed prize reserve	1	–	–	–	1	1,227
Net prize expense	\$ 506,087	\$ 34,483	\$ 39,272	\$ 26,726	\$ 20,382	\$ 11,005
Retailer commissions	\$ 41,692	\$ 3,852	\$ 3,908	\$ 2,857	\$ 2,628	\$ 1,013
Online systems	7,103	679	700	502	478	181
Marketing, advertising and promotion	6,380	483	497	358	340	133
Production expenses	8,140	55	55	54	54	15
Total direct costs	\$ 569,402	\$ 39,552	\$ 44,432	\$ 30,497	\$ 23,882	\$ 12,347
GROSS PROFIT	\$ 161,290	\$ 30,371	\$ 27,406	\$ 21,196	\$ 25,149	\$ 6,468

PROFIT MARGIN (% OF NET SALES)

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day	Lotto
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS						
Gross prize expense	69.9%	50.0%	55.7%	52.3%	42.4%	52.9%
Unclaimed prize credit	-0.7%	-0.7%	-1.0%	-0.6%	-0.8%	-0.9%
Use of unclaimed prize reserve	0.0%	0.0%	0.0%	0.0%	0.0%	6.5%
Net prize expense	69.3%	49.3%	54.7%	51.7%	41.6%	58.5%
Retailer commissions	5.7%	5.5%	5.4%	5.5%	5.4%	5.4%
Online systems	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Marketing, advertising and promotion	0.9%	0.7%	0.7%	0.7%	0.7%	0.7%
Production expenses	1.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Total direct costs	77.9%	56.6%	61.9%	59.0%	48.7%	65.6%
GROSS PROFIT	22.1%	43.4%	38.1%	41.0%	51.3%	34.4%

Cash5	Powerball	Mega Millions	Lucky for Life	5 Card Cash	Lucky Links	Keno	CT Super Draw	Total
\$ 31,214	\$ 88,135	\$ 42,158	\$ 19,577	\$ -	\$ 5,942	\$ 86,428	\$ 2,146	\$ 1,267,592
\$ 18,591	\$ 43,881	\$ 21,158	\$ 11,696	\$ (227)	\$ 3,554	\$ 56,326	\$ 1,464	\$ 800,238
(505)	(1,373)	(383)	(439)	-	(84)	(397)	-	(10,250)
-	-	-	-	-	-	-	1,373	2,602
\$ 18,086	\$ 42,508	\$ 20,775	\$ 11,257	\$ (227)	\$ 3,470	\$ 55,929	\$ 2,837	\$ 792,590
\$ 1,795	\$ 4,508	\$ 2,170	\$ 1,071	\$ -	\$ 330	\$ 4,869	\$ 130	\$ 70,823
304	835	403	191	-	58	2,253	22	13,709
131	1,511	902	213	-	42	1,624	161	12,775
61	46	20	40	-	106	3	2	8,651
\$ 20,377	\$ 49,408	\$ 24,270	\$ 12,772	\$ (227)	\$ 4,006	\$ 64,678	\$ 3,152	\$ 898,548
\$ 10,837	\$ 38,727	\$ 17,888	\$ 6,805	\$ 227	\$ 1,936	\$ 21,750	\$ (1,006)	\$ 369,044
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
59.6%	49.8%	50.2%	59.7%	0.0%	59.8%	65.2%	68.2%	63.1%
-1.6%	-1.6%	-0.9%	-2.2%	0.0%	-1.4%	-0.5%	0.0%	-0.8%
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	64.0%	0.2%
57.9%	48.2%	49.3%	57.5%	0.0%	58.4%	64.7%	132.2%	62.5%
5.8%	5.1%	5.1%	5.5%	0.0%	5.6%	5.6%	6.1%	5.6%
1.0%	0.9%	1.0%	1.0%	0.0%	1.0%	2.6%	1.0%	1.1%
0.4%	1.7%	2.1%	1.1%	0.0%	0.7%	1.9%	7.5%	1.0%
0.2%	0.1%	0.0%	0.2%	0.0%	1.8%	0.0%	0.1%	0.7%
65.3%	56.1%	57.6%	65.2%	0.0%	67.4%	74.8%	146.9%	70.9%
34.7%	43.9%	42.4%	34.8%	100.0%	32.6%	25.2%	-46.9%	29.1%

CONNECTICUT LOTTERY CORPORATION
SCHEDULE OF PROFIT MARGINS BY GAME TYPE, YEAR ENDED JUNE 30, 2017

PROFIT CONTRIBUTIONS (\$ in 000s)

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day
NET SALES	\$ 720,624	\$ 70,238	\$ 70,423	\$ 51,522	\$ 47,900
DIRECT COSTS					
Gross prize expense	\$ 500,987	\$ 33,877	\$ 40,369	\$ 25,272	\$ 20,125
Unclaimed prize credit	(3,115)	(502)	(708)	(286)	(338)
Use of unclaimed prize reserve	2	–	3	–	5
<i>Net prize expense</i>	\$ 497,874	\$ 33,375	\$ 39,664	\$ 24,986	\$ 19,742
Retailer commissions	\$ 41,108	\$ 3,862	\$ 3,843	\$ 2,837	\$ 2,567
Online systems	6,653	647	648	474	441
Marketing, advertising and promotion	5,719	452	452	337	313
Production expenses	6,378	54	54	53	53
<i>Total direct costs</i>	\$ 557,732	\$ 38,390	\$ 44,661	\$ 28,687	\$ 23,116
GROSS PROFIT	\$ 162,892	\$ 31,848	\$ 25,762	\$ 22,835	\$ 24,784

PROFIT MARGIN (% OF NET SALES)

	<i>Net sales</i>	100.0%	100.0%	100.0%	100.0%	100.0%
DIRECT COSTS						
Gross prize expense		69.5%	48.2%	57.3%	49.1%	42.0%
Unclaimed prize credit		-0.4%	-0.7%	-1.0%	-0.6%	-0.8%
Use of unclaimed prize reserve		0.0%	0.0%	0.0%	0.0%	0.0%
<i>Net prize expense</i>		69.1%	47.5%	56.3%	48.5%	41.2%
Retailer commissions		5.7%	5.5%	5.5%	5.5%	5.4%
Online systems		0.9%	0.9%	0.9%	0.9%	0.9%
Marketing, advertising and promotion		0.8%	0.6%	0.6%	0.7%	0.7%
Production expenses		0.9%	0.1%	0.1%	0.1%	0.1%
<i>Total direct costs</i>		77.4%	54.7%	63.4%	55.7%	48.3%
GROSS PROFIT		22.6%	45.3%	36.6%	44.3%	51.7%

Lotto	Cash5	Powerball	Mega Millions	Lucky for Life	5 Card Cash	Lucky Links	Keno	Total
\$ 18,305	\$ 30,079	\$ 78,619	\$ 29,107	\$ 20,405	\$ –	\$ 6,858	\$ 72,182	\$ 1,216,262
\$ 9,729	\$ 18,101	\$ 39,302	\$ 14,730	\$ 13,201	\$ (107)	\$ 4,432	\$ 46,607	\$ 766,625
(170)	(374)	(3,796)	(440)	(454)	75	(118)	(230)	(10,506)
160	–	–	–	–	–	–	–	170
\$ 9,719	\$ 17,727	\$ 35,506	\$ 14,290	\$ 12,747	\$ (32)	\$ 4,314	\$ 46,377	\$ 756,289
\$ 963	\$ 1,692	\$ 4,038	\$ 1,487	\$ 1,116	\$ –	\$ 385	\$ 4,086	\$ 67,984
168	277	727	268	188	–	63	1,967	12,521
146	803	1,097	751	98	–	47	1,851	12,066
16	66	72	25	44	–	107	1	6,923
\$ 11,012	\$ 20,565	\$ 41,440	\$ 16,821	\$ 14,193	\$ (32)	\$ 4,916	\$ 54,282	\$ 855,783
\$ 7,293	\$ 9,514	\$ 37,179	\$ 12,286	\$ 6,212	\$ 32	\$ 1,942	\$ 17,900	\$ 360,479
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
53.1%	60.2%	50.0%	50.6%	64.7%	0.0%	64.6%	64.6%	63.0%
-0.9%	-1.2%	-4.8%	-1.5%	-2.2%	0.0%	-1.7%	-0.3%	-0.9%
0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
53.1%	58.9%	45.2%	49.1%	62.5%	0.0%	62.9%	64.3%	62.2%
5.3%	5.6%	5.1%	5.1%	5.5%	0.0%	5.6%	5.7%	5.6%
0.9%	0.9%	0.9%	0.9%	0.9%	0.0%	0.9%	2.7%	1.0%
0.8%	2.7%	1.4%	2.6%	0.5%	0.0%	0.7%	2.6%	1.0%
0.1%	0.2%	0.1%	0.1%	0.2%	0.0%	1.6%	0.0%	0.6%
60.2%	68.4%	52.7%	57.8%	69.6%	0.0%	71.7%	75.2%	70.4%
39.8%	31.6%	47.3%	42.2%	30.4%	100.0%	28.3%	24.8%	29.6%



STATISTICAL SECTION

CONNECTICUT LOTTERY CORPORATION

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION ACTUAL VS. BUDGET (\$000s), YEAR ENDED JUNE 30, 2018

	Actual	Budget	Over/(Under) Budget	% Change
SALES				
OPERATING REVENUE	\$ 1,272,344	\$ 1,253,900	\$ 18,444	1.5%
Less sales returns, cancellations and promotion	(4,753)	0	(4,753)	–
Total operating revenue	\$1,267,591	\$ 1,253,900	\$ 13,691	1.1%
COST OF SALES AND OPERATING EXPENSES				
COST OF SALES				
Prize expense	\$ 792,590	\$ 777,333	\$ 15,257	2.0%
Retailer commissions	70,823	70,659	164	0.2%
Gaming systems	13,708	14,005	(296)	(2.1%)
Marketing, advertising, and promotion	12,776	13,724	(949)	(6.9%)
Production expenses	8,651	9,150	(499)	(5.5%)
Total cost of sales	\$ 898,548	\$ 884,871	\$ 13,677	1.5%
OPERATING EXPENSES				
Salaries and benefits	\$ 21,846	\$ 21,207	\$ 639	3.0%
Other operating expenses	3,560	4,041	(481)	(11.9%)
Depreciation and amortization	305	380	(75)	(19.7%)
Bad debt expense	26	200	(174)	(86.9%)
Total operating expenses	\$ 25,736	\$ 25,827	\$ (91)	(0.4%)
OTHER OPERATING REVENUE	\$ 40	\$ 37	\$ 3	9.2%
Operating income	\$ 343,347	\$ 343,238	\$ 108	0.0%
NONOPERATING REVENUES (EXPENSES)				
Interest income from investments on annuities	\$ 5,904	\$ 0	\$ 5,904	–
Interest income	384	70	314	448.6%
Interest expense on annuity payments	(5,904)	0	(5,904)	–
Annuity assignment	7	2	5	250.0%
Total nonoperating revenues	\$ 391	\$ 72	\$ 319	443.0%
CHANGE IN NET POSITION BEFORE				
PAYMENTS TO STATE FUNDS	\$ 343,738	\$ 343,310	\$ 427	0.1%
Payments to Chronic Gamblers' Fund	2,300	2,300	0	0.0%
Payments to Office of Policy and Management	2,730	2,730	0	0.0%
Payments to State's General Fund	345,000	338,281	6,719	2.0%
Change in net position	\$ (6,292)	\$ (6,292)	\$ (6,292)	N/A

CONNECTICUT LOTTERY CORPORATION

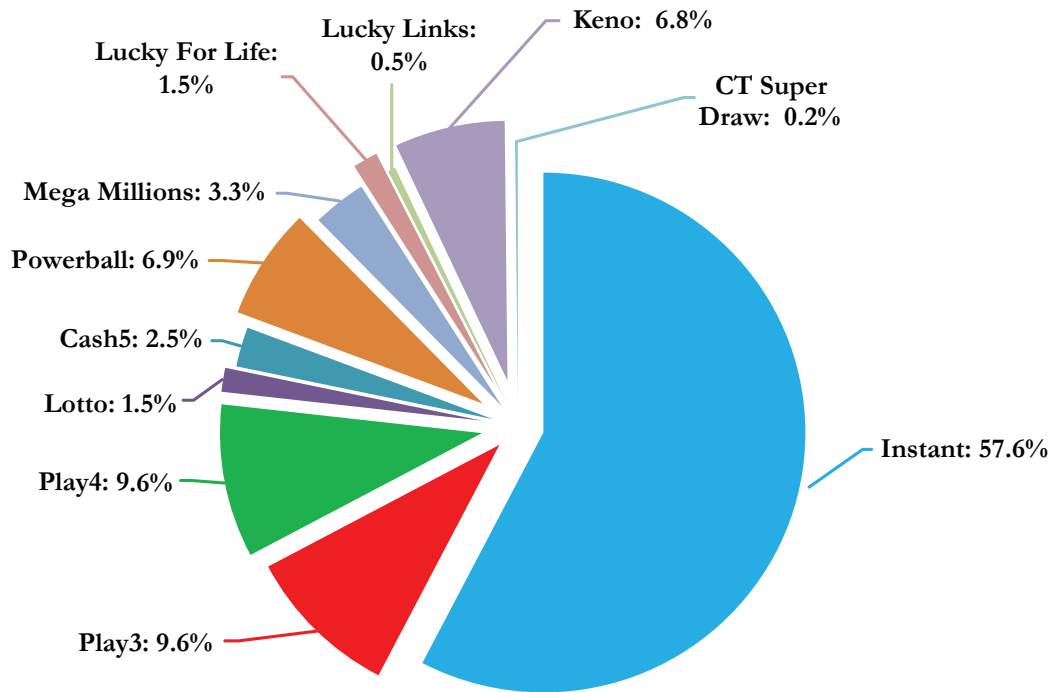
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BY GAME TYPE (\$000s), YEAR ENDED JUNE 30, 2018

	Instant	Play3 Night	Play4 Night	Play3 Day	Play4 Day	Lotto
SALES						
OPERATING REVENUE	\$ 731,924	\$ 70,726	\$ 72,607	\$ 52,237	\$ 49,514	\$ 18,831
Less sales returns, cancellations and promotions	(1,232)	(803)	(769)	(544)	(483)	(16)
Total operating revenue	\$ 730,692	\$ 69,923	\$ 71,838	\$ 51,693	\$ 49,031	\$ 18,815
COST OF SALES AND OPERATING EXPENSES						
COST OF SALES						
Prize expense	\$ 506,087	\$ 34,484	\$ 39,273	\$ 26,725	\$ 20,381	\$ 11,004
Retailer commissions	41,692	3,852	3,908	2,857	2,628	1,013
Gaming systems	7,103	679	700	502	478	181
Marketing, advertising, and promotion	6,380	483	497	358	340	132
Production expenses	8,140	55	55	54	54	16
Total cost of sales	\$ 569,402	\$ 39,553	\$ 44,433	\$ 30,496	\$ 23,881	\$ 12,346
OPERATING EXPENSES						
Salaries and benefits	\$ 13,406	\$ 595	\$ 812	\$ 649	\$ 866	\$ 649
Other operating expenses	2,194	106	142	98	133	106
Depreciation and amortization	189	9	12	8	11	9
Bad debt expense	15	1	1	1	1	0
Total operating expenses	\$ 15,804	\$ 711	\$ 967	\$ 756	\$ 1,011	\$ 764
OTHER OPERATING INCOME	\$ 24	\$ 2	\$ 2	\$ 2	\$ 2	\$ 1
Operating income	\$ 145,510	\$ 29,661	\$ 26,440	\$ 20,443	\$ 24,141	\$ 5,706
NON-OPERATING REVENUES (EXPENSES)						
Interest income from investments on annuities	\$ 3,893	\$ 0	\$ 0	\$ 0	\$ 0	\$ 575
Interest income	180	17	18	13	12	5
Interest expense on annuity payments	(3,893)	0	0	0	0	(575)
Annuity assignment	5	0	0	0	0	1
Total non-operating revenues	\$ 185	\$ 17	\$ 18	\$ 13	\$ 12	\$ 6
CHANGE IN NET POSITION BEFORE PAYMENTS TO STATE FUNDS						
PAYMENTS TO STATE FUNDS	\$ 145,695	\$ 29,678	\$ 26,458	\$ 20,456	\$ 24,153	\$ 5,712
Payments to Chronic Gamblers' Fund	1,348	131	133	97	90	35
Payments to Office of Policy and Management	1,600	155	158	115	107	41
Payments to State's General Fund	145,113	29,915	26,799	20,410	24,491	5,743
Change in net position	\$ (2,366)	\$ (523)	\$ (632)	\$ (166)	\$ (535)	\$ (107)

Cash 5	Powerball	Mega Millions	Lucky for Life	5 Card Cash	Lucky Links	Keno	CT Super Draw	Total
\$ 32,083 (869)	\$ 88,153 (18)	\$ 42,165 (7)	\$ 19,584 (7)	\$ – 0	\$ 5,942 (1)	\$ 86,431 (4)	\$ 2,146 0	\$ 1,272,344 (4,753)
\$ 31,214	\$ 88,135	\$ 42,158	\$ 19,577	\$ 0	\$ 5,941	\$ 86,427	\$ 2,146	\$ 1,267,591
\$ 18,086 1,795 304 131 61	\$ 42,508 4,508 835 1,511 46	\$ 20,775 2,170 403 902 20	\$ 11,257 1,071 191 213 40	\$ (227) 0 0 0 0	\$ 3,470 330 58 42 106	\$ 55,929 4,868 2,254 1,624 3	\$ 2,838 130 22 161 2	\$ 792,590 70,823 13,708 12,776 8,651
\$ 20,377	\$ 49,408	\$ 24,270	\$ 12,772	\$ (227)	\$ 4,006	\$ 64,678	\$ 3,153	\$ 898,548
\$ 649 106 9 1	\$ 757 124 11 2	\$ 757 125 11 2	\$ 757 140 11 0	\$ 0 0 0 0	\$ 433 71 6 0	\$ 1,503 213 18 2	\$ 11 3 0 0	\$ 21,846 3,560 305 26
\$ 765	\$ 894	\$ 895	\$ 908	\$ 0	\$ 510	\$ 1,736	\$ 14	\$ 25,736
\$ 1	\$ 2	\$ 1	\$ 1	\$ 0	\$ 0	\$ 2	\$ 0	\$ 40
\$ 10,073	\$ 37,835	\$ 16,994	\$ 5,898	\$ 227	\$ 1,425	\$ 20,015	\$ (1,021)	\$ 343,347
\$ 0 8 0 0	\$ 0 71 0 0	\$ 0 34 0 0	\$ 1,436 5 (1,436) 2	\$ 0 0 0 0	\$ 0 1 0 0	\$ 0 21 0 0	\$ 0 0 0 0	\$ 5,904 385 (5,904) 7
\$ 8	\$ 71	\$ 34	\$ 7	\$ 0	\$ 1	\$ 21	\$ 0	\$ 391
\$ 10,081 58 68 10,001	\$ 37,906 136 162 37,942	\$ 17,028 68 81 17,137	\$ 5,905 37 44 5,817	\$ 227 0 0 227	\$ 1,426 11 13 1,410	\$ 20,036 156 185 19,996	\$ (1,000) 1 1 0	\$ 343,738 2,300 2,730 345,000
\$ (46)	\$ (334)	\$ (258)	\$ 7	\$ –	\$ (8)	\$ (301)	\$ (1,002)	\$ (6,292)

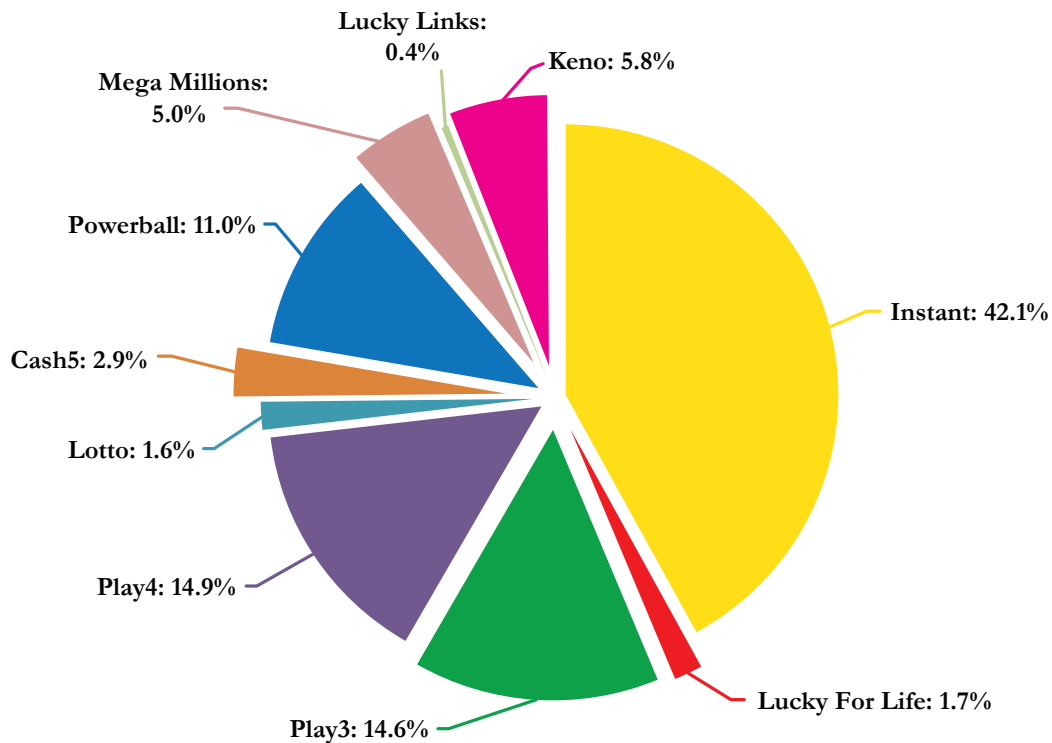
REVENUE BY GAME

FISCAL YEAR 2018 TOTAL SALES: \$1,267,591,283



GENERAL FUND PAYMENTS BY GAME

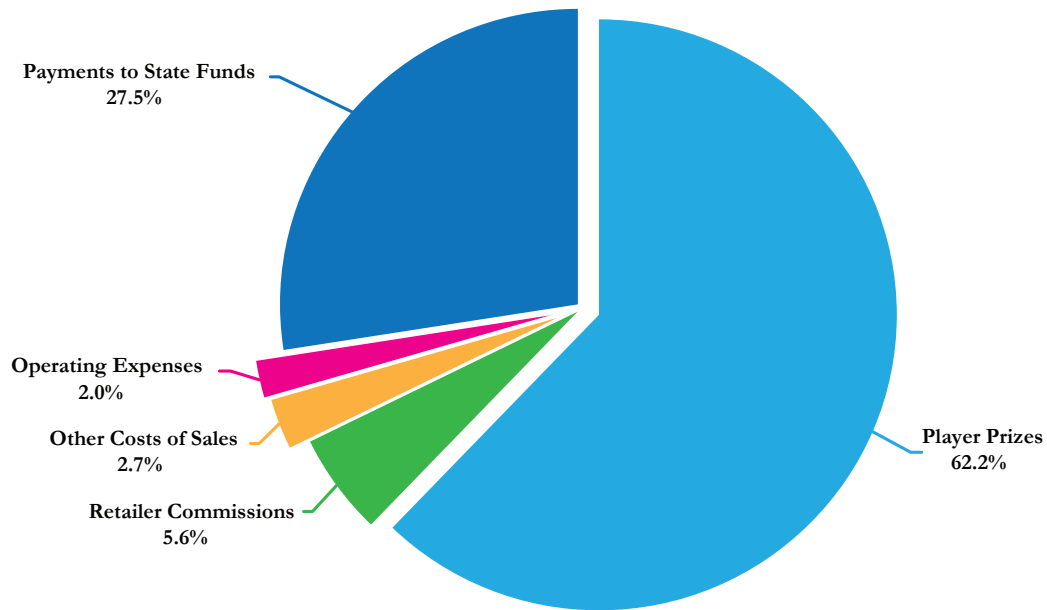
FISCAL YEAR 2018 TOTAL PAYMENTS: \$345,000,000



Note: "Play3" includes Play3 Day and Play3 Night; "Play4" includes Play4 Day and Play4 Night.

DISTRIBUTION OF EXPENSES AND PAYMENTS AS A PERCENTAGE OF TOTAL REVENUE

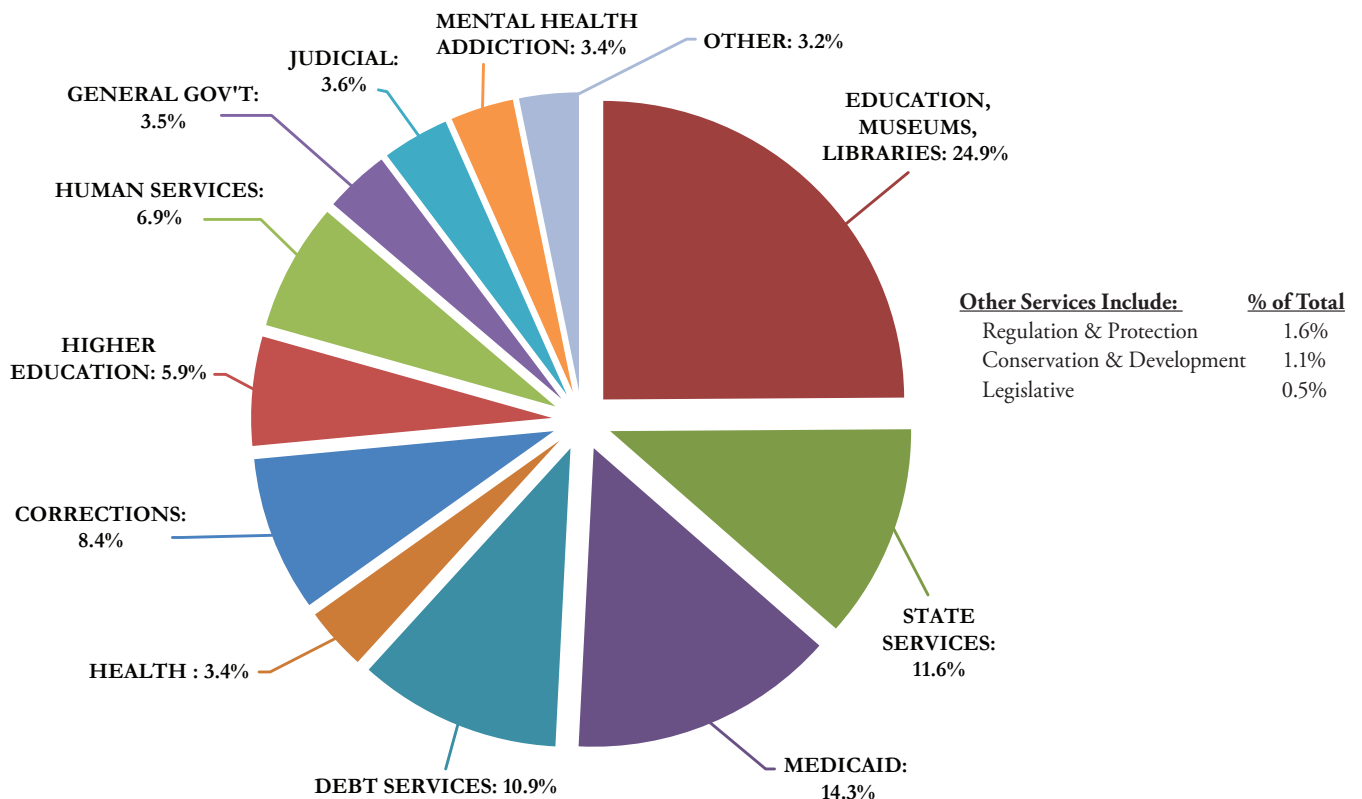
FISCAL YEAR 2018 TOTAL SALES: \$1,267,591,283



Note: Other Cost of Sales comprised of online systems, marketing, advertising and promotions and production expenses.

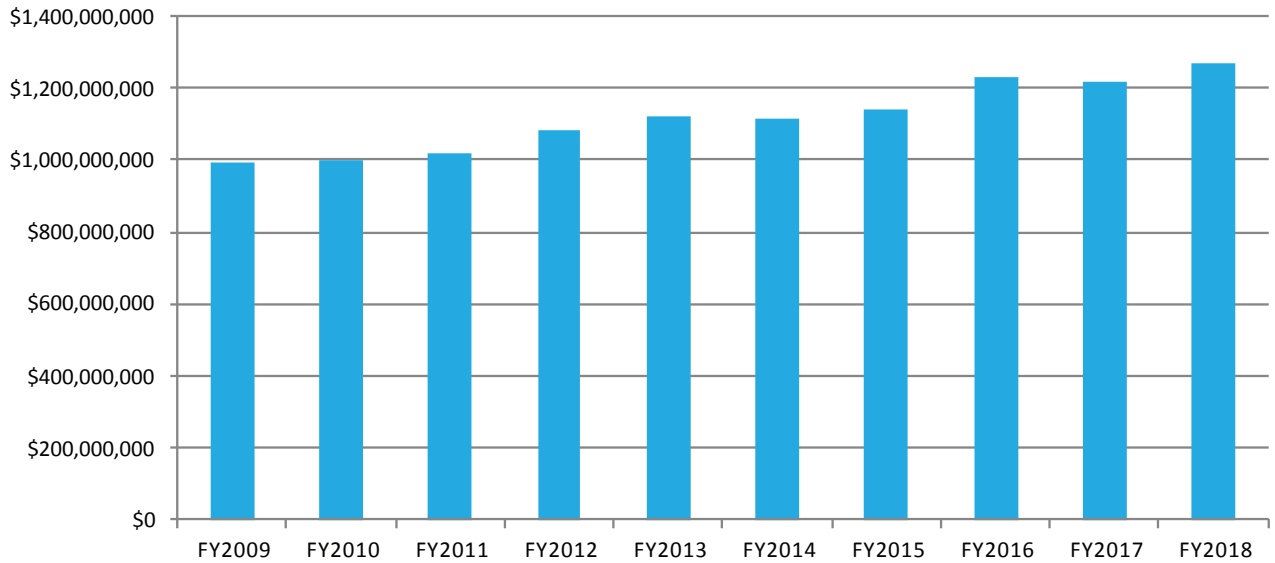
STATE SERVICES SUPPORTED BY LOTTERY PAYMENTS TO THE GENERAL FUND

FISCAL YEAR 2018 PAYMENTS TO THE GENERAL FUND: \$345,000,000

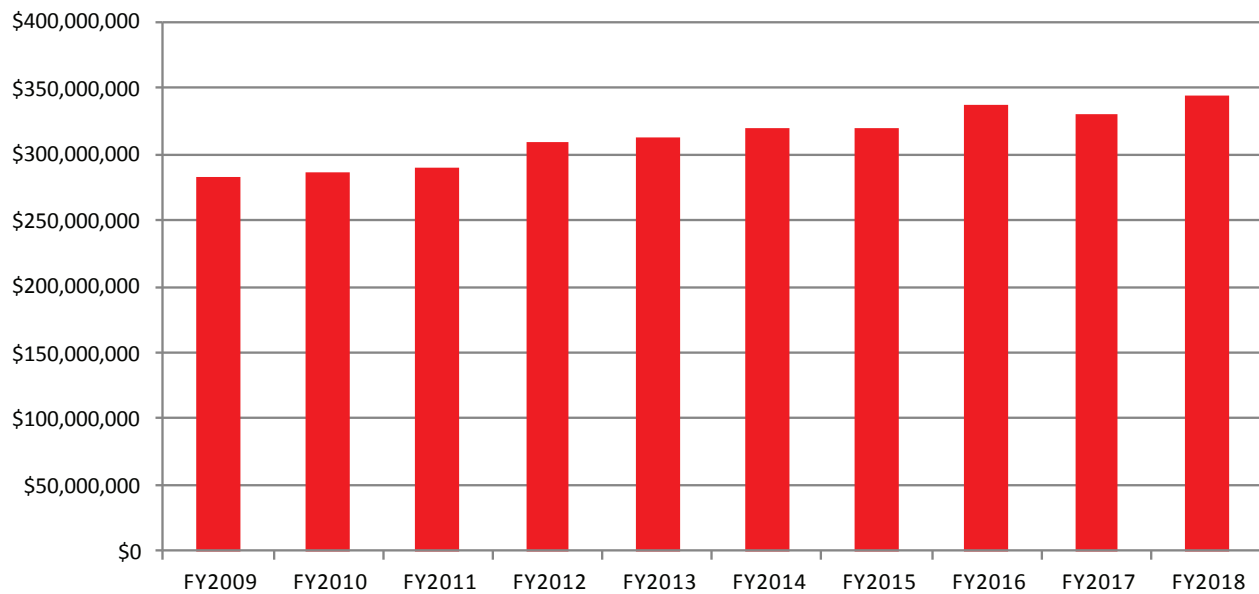


Based on Fiscal Year 2018 General Fund Percentages Appropriated by the Legislature. Source: Connecticut State Budget 2017-2018

REVENUES FOR THE LAST TEN FISCAL YEARS



PAYMENTS TO THE GENERAL FUND FOR THE LAST TEN FISCAL YEARS



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CONNECTICUT LOTTERY CORPORATION

SCHEDULE OF REVENUES BY GAME TYPE, RELATED EXPENSES AND PAYMENTS TO THE GENERAL FUND (\$000s) FOR THE LAST TEN FISCAL YEARS

	2009	2010	2011	2012
Operating Revenue				
Instant	\$ 610,013	\$ 593,374	\$ 610,568	\$ 653,310
Daily Games ⁽¹⁾	206,343	211,317	225,381	220,061
Lotto	32,942	29,904	24,341	27,372
Cash5	40,420	35,041	34,243	33,781
Powerball	92,134	85,282	60,280	74,281
Mega Millions	0	11,231	33,185	40,628
Lucky for Life ⁽²⁾	9,451	30,698	23,815	26,871
CT Super Draw	0	0	4,801	5,436
5 Card Cash	0	0	0	0
Lucky Links	0	0	0	0
Keno	0	0	0	0
Total Operating Revenue	\$ 991,303	\$ 996,847	\$ 1,016,614	\$ 1,081,740
Costs				
Prizes	\$ 604,712	\$ 608,755	\$ 620,134	\$ 659,898
Retailer commissions	55,771	55,885	56,964	60,740
Other cost of sales ⁽³⁾	24,933	23,703	26,129	27,435
Total cost of sales	\$ 685,416	\$ 688,343	\$ 703,227	\$ 748,073
PAYMENTS TO STATE'S GENERAL FUND				
	\$ 283,000	\$ 285,500	\$ 289,300	\$ 310,000

⁽¹⁾ "Daily Games" refers to Play3 Day, Play4 Day, Play3 Night and Play4 Night.

⁽²⁾ "Lucky for Life" revenue includes "Lucky-4-Life" revenue for the years 2009 through 2012. "Lucky for Life" began in 2012.

⁽³⁾ "Other Cost of Sales" are comprised of online systems, marketing, advertising and promotions and production expenses.

2013	2014	2015	2016	2017	2018
\$ 667,255	\$ 660,230	\$ 687,967	\$ 742,296	\$ 720,623	\$ 730,692
233,619	235,883	231,755	245,062	240,083	242,485
22,149	21,591	20,143	19,429	18,305	18,815
32,565	32,318	31,220	30,994	30,079	31,214
107,383	82,725	66,502	106,271	78,619	88,135
23,728	37,567	32,369	29,406	29,107	42,158
30,432	25,095	21,523	21,709	20,405	19,577
5,564	4,355	2,896	0	0	2,146
0	12,641	46,322	13,107	0	0
0	0	3,276	10,053	6,858	5,942
0	0	0	12,444	72,182	86,428
<hr/>					
\$ 1,122,695	\$ 1,112,405	\$ 1,143,973	\$ 1,230,769	\$ 1,216,262	\$ 1,267,591
<hr/>					
\$ 699,063	\$ 668,792	\$ 707,735	\$ 760,269	\$ 756,289	\$ 792,590
62,765	62,077	64,270	68,688	67,984	70,823
27,993	28,695	28,232	30,908	31,510	35,135
<hr/>					
\$ 789,821	\$ 759,564	\$ 800,237	\$ 859,865	\$ 855,783	\$ 898,548
<hr/>					
\$ 312,100	\$ 319,500	\$ 319,700	\$ 337,500	\$ 330,000	\$ 345,000

CONNECTICUT LOTTERY CORPORATION

COMPARATIVE INDUSTRY STATISTICS

Based upon data published in *La Fleur's 2018 World Lottery Almanac*, the Connecticut Lottery Corporation ranked highly in key statistics for measurement of operational performance. The data for the latest period available, fiscal 2017, included data from lotteries in 44 states plus the District of Columbia (D.C.). Top performing lotteries in key categories are presented below.

A. SALES PER CAPITA - FY 2017:

State/District	Population (Millions)	Ticket Sales (Millions \$)	Sales Per Capita (Dollars)
1 Massachusetts	6.9	\$ 5,087.9	\$ 742.0
2 Georgia	10.4	4,218.4	404.0
3 New York	19.8	7,679.1	387.0
4 New Jersey	9.0	3,186.9	359.0
5 Connecticut	3.6	1,216.3	339.0
6 Michigan	10.0	3,329.8	334.0
7 South Carolina	5.0	1,635.7	326.0
8 Maryland	6.1	1,931.4	319.0
9 D.C.	0.7	218.7	315.0
10 Pennsylvania	12.8	4,001.0	312.0

B. NET INCOME PER CAPITA - FY 2017:

State/District	Population (Millions)	Net Income (Millions \$)	Net Income Per Capita (Dollars)
1 Massachusetts	6.9	\$ 1,038.4	\$ 150.49
2 New Jersey	9.0	1,013.1	112.57
3 Georgia	10.4	1,087.2	104.54
4 Connecticut	3.6	336.1	93.36
5 Michigan	10.0	917.1	91.71
6 Pennsylvania	12.8	1,045.7	81.70
7 South Carolina	5.0	398.2	79.64
8 Florida	21.0	1,627.3	77.49
9 Virginia	8.5	558.3	65.68
10 D.C.	0.7	45.7	65.29

C. OPERATING EXPENSES* AS PERCENTAGE OF SALES - FY 2017:

State/District	Ticket Sales (Millions \$)	Operating Expenses (Millions \$)	Expense %
1 Massachusetts	\$ 5,087.9	\$ 97.8	1.9%
2 South Carolina	1,635.7	39.5	2.4
3 Florida	6,156.5	199.7	3.2
4 New Jersey	3,235.8	112.9	3.5
5 West Virginia	166.5	6.5	3.9
6 Pennsylvania	4,001.0	156.9	3.9
7 North Carolina	2,428.1	94.9	3.9
8 Tennessee	1,495.9	59.8	4.0
9 Georgia	4,218.4	178.6	4.2
10 Texas	5,077.5	219.8	4.3
11 Missouri	1,342.7	59.9	4.5
12 Connecticut	1,216.3	56.2	4.6
13 Michigan	3,329.8	155.6	4.7
14 Illinois	2,845.6	137.0	4.8
15 Virginia	1,989.9	106.3	5.3

*Operating expenses are comprised of on-line systems, marketing, advertising and promotion, production expenses, salaries and benefits, other operating expenses, depreciation and amortization and bad debt expense.

CONNECTICUT LOTTERY CORPORATION

2018 ANNUAL REPORT

777 BROOK STREET, ROCKY HILL, CT 06067
TELEPHONE: (860) 713-2700
FACSIMILE: (860) 713-2805

THE 2018 ANNUAL REPORT IS AVAILABLE AT
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